





## THE EDINBURGH SUMMIT

## Weak response to bleak economic outlook

By Peter Norman

THE economic recovery initiative at the summit may, with luck, add a little to EC growth next year.

But the package, which EC leaders hope will support investment of more than Ecu30bn (£24bn) through new Community loans and guarantees, falls far short of addressing the EC's real economic problems and is unlikely to prevent further rises in unemployment.

At Edinburgh, neither the leaders nor their finance ministers tackled seriously the issue of Germany's deficit financing of eastern Germany and the current problems of the European Monetary System. Yet it is Germany's inability to reduce rapidly its dependence on borrowing for the new Länder that transmits high short-term interest rates to the other members of the European exchange rate mechanism and has contributed to recent strains in the European Monetary System.

The EC package skirts round these fundamental problems. Instead member states are encouraged to manage their economies more effi-

## GROWTH

ciently in the hope that this will encourage investment. They are urged, where possible, to divert public spending to infrastructure and capital projects away from current spending such as wages.

At Community level, these efforts are to be topped up by the mobilisation of new funds through the European Investment Bank (EIB) and a new European Investment Fund (EIF) with the aim of supporting investments of Ecu30bn or more over the next few years.

Mr Norman Lamont, the UK Chancellor, said the two funds "were important and imaginative initiatives that involved very substantial amounts of money that would lead to more investment."

The EIF will be capitalised at Ecu2bn, to be subscribed 40 per cent by the EIB, 30 per cent by the Commission and 30 per cent by financial institutions. This capital will enable it to give guarantees worth between Ecu5bn and Ecu10bn for projects to be carried out with other organisa-

tions. These projects, which could include investment in small and medium sized companies as well as infrastructure spending, could, the EC leaders hope, be worth up to Ecu20bn.

In addition, the EIB will create a new "lending facility" that will allow it to extend credits totalling Ecu5bn to co-finance infrastructure investment in the Community in 1993 and 1994. According to Mr Henning Christophersen, the economic affairs commissioner, the money will be used largely to finance "missing links" in the EC's transport system.

These will include improved cross-border motorway, rail and gas pipeline links inside the EC. The EIB may also use the funds to finance projects in central and eastern Europe, perhaps jointly with the London-based European Bank for Reconstruction and Development.

Mr Christophersen said the Ecu5bn in loans could support projects worth Ecu12bn Mr Lamont was more cautious, putting the likely investment at Ecu7bn or Ecu8.5bn.

To allow the EIB to operate more flexibly, the summit agreed that it

will be able to use the new facility to provide a maximum of 75 per cent of planned financing for projects compared with its normal participation ceiling of 50 per cent. The combined loan and grant ceiling for projects with a grant element will be raised to 90 per cent from 70 per cent.

The growth initiative was the summit's response to an increasingly bleak economic outlook in the EC. Mr John Major, the UK prime minister, had told fellow leaders that the meeting had to make its relevance clear to the people of Europe by focusing on jobs and growth.

Mr Christophersen said growth next year was unlikely to be much more than 1 per cent after 1.1 per cent to 1.3 per cent this year. EC unemployment, at a around 11 per cent next year, would be back at the levels of the mid-1980s, he said. Capacity utilisation in industry was only 79 per cent. Inflation was falling, but not sufficiently to pave the way for a decline in interest rates.

National measures, including wage restraint, could make an important contribution to lowering borrowing costs, he said. But lower

interest rates were not sufficient in themselves to boost investment. Many companies and consumers were caught in a debt trap. For that reason, the Community had decided on its growth initiative.

The new facilities, which should be ready to start operating in about six months' time, will be flanked by increased spending on poorer EC countries through the so-called cohesion funds agreed at the summit. The EC also intends to improve the management and efficiency of its research funding and place more emphasis on training.

Mr Christophersen also stressed the importance of completing the single market, progressing with deregulation and privatisation, speeding up the approval of common norms and standards and introducing tax incentives for investment.

In their final statement, the leaders ruled out any large-scale fiscal boost by reaffirming their determination to fulfil the tough economic convergence criteria in the Maastricht treaty.

Although some member states - notably Germany - had approached

the idea of a growth initiative with scepticism, the summit communiqué said the leaders were "convinced" that the measures would boost confidence and growth and create jobs.

However, Mr Christophersen indicated that the loan and guarantee package would not make up for a recession-induced shortfall of investment in the EC, which he estimated at about Ecu40bn next year.

The success of the package will depend on how far companies, organisations and governments link up with the EIB and EIF to exploit the new loans and guarantees. The commissioner said many EC transport projects had been identified which could profit from the schemes and also suggested that there could be a positive "announcement effect" from the summit.

But such optimism could not disguise the age old problem with such projects. Measures such as the EIF and special EIB facility are meant to create confidence. But they can only boost the economy if there is sufficient confidence among investors to want to use such facilities in the first place.

## Legalistic acrobatics rescue Denmark

## MAASTRICHT

By Lionel Barber and Hilary Barnes

THE smile on Mr Uffe Ellemann-Jensen's face could easily have spanned the Fifth of Forth.

"Denmark is satisfied," the Danish foreign minister declared. After five months of hard bargaining, Mr Ellemann-Jensen was visibly relieved that EC leaders had finally agreed to meet Danish demands for legally binding opt-outs on the Maastricht treaty.

The deal reached at the Edinburgh summit paves the way for the minority government in Denmark to submit a new text to voters in a second referendum "on Maastricht" in late April or early May - to be followed by ratification by the Community struggle, Britain.

On Saturday, Mr Ellemann-Jensen made a 40 per cent vote in favour - a forecast which drew polite gasps in the light of his government's failure to predict the treaty's rejection in last June's referendum. His figure was backed up, however, by the results of two opinion polls published in Denmark at the end of last week.

The final agreement is an exercise in legal and constitutional acrobatics which comes down to one crude political goal: how to keep Denmark inside the EC without watering down the Maastricht treaty to the point where its provisions are meaningless.

The new text walks a fine line in its effort to meet Denmark's requests for legally binding exemptions without reopening the treaty or producing a text requiring re-ratification by member states.

Denmark strengthens its previously won right to avoid signing up to the third stage of European monetary union and a single currency, the core goal of the Maastricht treaty.

The leaders note that nothing in Maastricht commits Denmark to become a member of the West European Union. "Accordingly, Denmark does not participate in the elaboration and the implementation of the Union which have defence implications."

Denmark has won legally binding exemptions from measures on EC citizenship and EC co-operation on justice and home affairs matters.

The drafting involves a "decision" by heads of government which has the force of international law with a unilateral Danish political "declaration" which restates its opposition to join in citizenship of the "European Union" envisaged under Maastricht.

In return, Denmark has agreed not to exploit its opt-outs to prevent the other EC members from pressing ahead with the objectives of Maastricht. Similarly, in an effort to limit the political damage, member states have declared that the opt-outs are only in response to the failure of the treaty in the first referendum. These exemptions are "fully compatible" with the treaty, the statement adds.

Few EC leaders in Edinburgh were prepared to argue the legal niceties of the Danish deal, though Mr Major admitted on Saturday that it could not be tested in the European Court of Justice.

The agreement was welcomed by business leaders in Denmark greeted by newspaper headlines in Copenhagen as "Triumph for Denmark" and "Europe Gave Way".

Yesterday seven of the eight parties in the Folketing backed the Edinburgh deal.

Heads of government have been assured that the deal is legally watertight.

## Major will try to build on success

By Philip Stephens

THERE are no easy triumphs on offer in Europe for Mr John Major. Until Britain has ratified the Maastricht treaty, the prime minister will be unable to dispel the suspicion of his continental colleagues that he remains a reluctant participant in the European enterprise.

But it would be churlish to suggest that the summit was anything but a personal success. After the chaos and confusion of recent months, Mr Major could claim with justice that his government - and the Community - had begun to regain their balance.

Mr Major deserves much of the credit. The basic impetus for the deals struck at Edinburgh was a recognition by all 12 leaders that the price of failure was too high. But the prime minister provided the skilful chairmanship which allowed each delegation to dress up collective compromises as individual successes.

Mr Poul Schlüter, the Danish prime minister, described Mr Major's handling of the summit as "elegant and effective". Mr Albert Reynolds, the Irish premier, offered a similar judgment. Even President François Mitterrand allowed himself a grudging compliment.

Mr Major intends to capitalise on the plaudits - and on the substantive deals struck in Edinburgh. Doubts over Maastricht and Black Wednesday handed the initiative to the Tory Euro-sceptics. Now Mr Major thinks he can regain it.

The balance sheet he will present to the Commons later today he will list a string of successes for his brand of pragmatic Europeanism.

British ingenuity ensured that Denmark had another opportunity to move forward with the rest of the Community. The declaration on subsidiarity met demands that Brussels give substance to the commitment to decentralise authority.

All 12 governments are pledged to push ahead with negotiations to enlarge the Community, initially to include Austria, Finland and Sweden. Mr Major defended successfully the British budget rebate. With the eventual help of Chancellor Helmut Kohl, he resisted demands that he set a firm timetable for ratification of Maastricht at Westminster. He found time also to settle long-standing disputes over the

## BRITAIN

sites of the EC's main institutions and to give Germany extra European MPs to reflect unification.

The balance sheet carries its minuses also. The Tory sceptics seized yesterday on the concessions which he was forced to give on the size of the budget. They will make much of the concession to Brussels "profligacy" during the interminable New Year debates at Westminster on Maastricht.

For many other European leaders subsidiarity is a useful but essentially unimportant concept. Negotiations on enlargement may begin before Maastricht is ratified but progress remains contingent on the treaty coming into force. On the admission of some of the participants the economic initiative drawn up by the finance ministers will do little to dispel the gloom over European growth prospects.

There was no doubt though that Edinburgh was a summit shaped much more by Mr Major's pragmatism than by the European idealism of Mr Mitterrand or Chancellor Helmut Kohl. That will give the prime minister a powerful weapon in his attempts to detach from the irreconcilable Tory critics of Maastricht a much larger group of waverers.

His message now to his party will be simple: the great mass of the Conservative party wants a decentralised wider Community with the bureaucratic wings of Brussels clipped. He can deliver it. The Tory doubters in return must ensure that Britain retains its voice in Europe by ratifying the treaty.

If the Danish people vote Yes in a second referendum the message will be unanswerable. The Maastricht treaty could well be on the British statute book by the end of July.

Mr Major's problem is that all-important "if". Mr Douglas Hurd, the foreign secretary, acknowledged that the government would abandon ratification in the wake of a second Danish No vote. He accepted also that the other 10 probably would push ahead with a new version of the treaty from which Britain as well as Denmark might be excluded. The uncomfortable implication is that Britain's future in Europe for moment may rest with the tiny Danish electorate.

contributions to the Community budget from the rich north and centre of the EC which are transferred to the south and the periphery. Chancellor Helmut Kohl of Germany, the Community's main paymaster, described the outcome as "a solid compromise... between the poor and the developed countries."

It is no exaggeration to say that the future of the European Community hung on this compromise. Mr González and his allies from Ireland, Portugal and Greece had demanded budgetary satisfaction as their price for endorsing the Danish opt-outs from Maastricht which are essential for all the 12 to be able to ratify the treaty. And next year's



Kohl at the final press conference: again supported key elements of Major's policy

## Balance of power on policy-making unaltered

By David Gardner

## SUBSIDIARITY

JUST before the Edinburgh summit, a European Commission official said he expected the EC would be able to agree "a text sufficiently meaningful to everyone" on subsidiarity, to get through the artificially pumped-up debate on how to divide power between the Community and the member states.

He was broadly right. The conclusions on "subsidiarity" are modest. There will be no rolling back of Community activity and the Commission retains its sole right to propose legislation. Instead, there will

be a greater onus on the Commission, on national ministers, and on Euro-MPs to demonstrate that action at EC level is in response to real needs in the member states.

The European institutions will have to show that their supranational plans have added value for EC members, and that the means required to implement them are proportional to the desired end. They will also have to ensure the widest possible scope for national decision-making and to consult more broadly before

proceeding, through means such as green papers.

To open up decision-making to greater public scrutiny, important policy debates and "major new legislative proposals" will be televised for the press. But, as now, the real negotiating process will still be shielded from view. The record of all formal votes in the Council of Ministers will be published, with member states explaining their decisions if they so wish. But already ministers go to great lengths to avoid embarrassing any of their number through formal votes, so this measure is unlikely to make the defence of

national and vested interest more visible.

For the moment, the balance of power within the "ever-closer union" postulated by Maastricht has not changed.

The bundle of 71 items of EC law and Commission proposals sought by the UK became a damp squib. Laws will be updated, to make them less intrusive and easier to implement nationally or locally. But the Commission is withdrawing a mere score of planned measures, some so arcane that officials could not be found to explain what they were.

At a later date, an "inter-institutional accord" between the

Commission, the European parliament and the Council of Ministers will make clear that all power is vested in the member states except where otherwise specified. This essentially federalist principle is implicit in both the Treaty of Rome and the Maastricht treaty.

What was reaffirmed at Edinburgh was the EC's political preference for decision-making at national, and in most cases, regional, level, combined with its need for some decisions to be taken at supranational, Community level. In a word, federalism - at least as most Community members understand it.

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## Spain 'first, first, first' but other members do well too

By David Gardner

## BUDGET

WHEN the word "handbag" was mentioned at Mr Felipe González's end-of-summit press conference, the Spanish premier and his ministers roared with approving laughter at this comparison with Mrs Margaret Thatcher's 1994 feat in extracting an EC budget rebate for the UK.

Not since then has a member state so successfully held the Community to ransom, and Mr González was not shy about proclaiming his achievement, or about having put Spain's national interests "first, first and first", as one of his officials candidly expressed it.

Mr González pointed out that "for Spain there will be a doubling" of the development aid all poorer member states get through EC "cohesion" policy

enlargement negotiations on EC entry for Austria, Sweden, Finland, and eventually Norway would not have won their sanction without agreement on future financing.

Yet, as Mr González acknowledged, the new budget package is, overall, tight when measured against the ambitions of Maastricht, and the interpretation of them by Mr Jacques Delors, the European Commission president.

Overall, the EC budget will rise from Ecu66.8bn (£54bn) now to Ecu84.1bn in 1999, in today's money. The budgetary ceiling, expressed as a portion of joint EC gross national product, will rise from 1.2 per cent now to 1.27 per cent in 1999. The cash increase will be greater over the seven years than this lifted limit suggests, because this year's spending -

at around 1.14 per cent of EC GNP - still has "headroom" under the ceiling.

Mr Delors had originally proposed a rise to 1.37 per cent over five years, or an increase to Ecu87.5bn by 1997. He compromised last month, suggesting a rise to Ecu86.2bn over seven years (for a ceiling of 1.32 per cent of GNP in 1999). But Mr John Major, as current president of the EC Council, after first refusing any change in the ceiling, had insisted on holding the line at 1.25 per cent, which would have allowed spending of Ecu79.4bn in 1999 on current EC growth and inflation projections.

Total "structural" spending is to rise from Ecu18.5bn now to Ecu30bn in 1999. The main increase will be in the Structural Funds, which rise to Ecu27.4bn in 1999, and second,

the new Cohesion Fund created by the Maastricht treaty, which will by then make up the Ecu2.6bn balance. This new fund is solely for Spain, Ireland, Portugal and Greece, as their per capita income is less than 90 per cent of the EC average, and is to help them meet EC environmental standards and fill in the "missing links" in pan-European transport networks.

Spain gets its doubling of fiscal transfers not least because it has informally endorsed claims on 55 per cent of the Cohesion Fund. The other "cohesion" countries are not too unhappy because the main increase in the Structural Funds applies to them.

Germany also gets a sizeable deal. There is unlikely to be any net increase in its huge Ecu5bn net contribution to the

budget. Mr Horst Köhler, the German state secretary for finance, pointed out that new eastern states would get treatment equal to that of the cohesion countries, worth some DM15bn (£5.3bn) over seven years - something of a rebate for Germany.

The UK rebate, worth some £2bn a year but hotly contested by Mr Kohl, was left intact.

The unpopular French government also got a discreet political filip from its partners, opening the way to compensation for French farmers now up in arms about the Uruguay Round farm trade deal. There is to be no formal relaxing of farm spending limits, which will rise as foreseen from Ecu35.3bn now to Ecu38.4bn in 1999.

But there is a "weasel" paragraph allowing "appropriate

steps" to meet exchange rate turbulence - which Commission officials already reckon could plausibly produce an additional Ecu1.5bn for farmers.

It is "internal policies" - on the environment, transport, R&D and infrastructure - which suffered most from the success of Spain and its allies in prying loose the most from a tight Community wad.

These policies are the bread-and-butter of the EC's recent expansion of its competence. The UK, which prefers loose co-operation between governments to Community action stimulated in Brussels, well knew that it was the latter which would be squeezed most when it decided to be parsimonious on EC finance. Spain was not the only victor of the compromise.



# Treaty may leak through loopholes

**B**Y contrast with earlier predictions of apocalyptic failure, the British government can claim to be reasonably satisfied with the way it managed the summit negotiations.

The Danish problem was settled after a fashion, a pragmatic compromise was hammered out on expanding future Community budgets, and limits were placed on future Community legislation, in the name of the much-debated principle of "subsidiarity".

Ahead of the summit, Britain had been castigated for its "calamitous" presidency of the Council; but other member states have gracefully shifted from vituperation to compliments, and even forbore to insist on any new deadline for British ratification of the Maastricht treaty.

Yet the Edinburgh meeting has been an essentially inconclusive affair. A year ago the 12 were in various states of euphoria over the completion of negotiations on the Maastricht Treaty of European Union. Today the future and even the status of that treaty are in doubt, and these doubts have not been resolved by this weekend's summit meeting.

The two central features of the treaty are a programme for Economic and Monetary Union, and a commitment to a common foreign and security policy, but both of them are now seriously in doubt. Since the monetary upheavals of this autumn, it is hard to believe that the Emu programme is feasible in the terms laid down by the treaty. In the light of events in ex-Yugoslavia, the claims of a common European foreign policy look desirous.

The most pressing question was the Danish conundrum: how to give the Danes a series of opt-outs from the treaty, in a form that was sufficiently "legally binding" to enable them to hold a second referendum, but not so legally binding as to require a new round of ratification in the other member states. That circle now appears to have been squared through the ingenious inventiveness of the Community's lawyers.

And yet everyone knows that

circles cannot really be squared. Appearances have been saved by the Danish deal, but the real result has been to void the Maastricht treaty of a little more of its content.

The British government may nevertheless believe that the cumulative effect of the Edinburgh package can be seen as a significant double victory for its vision of a Community which is larger, looser and less integrated. The first half of that victory is the Danish deal: if Denmark can be allowed a comprehensive opt-out from most of the main objectives of Maastricht, those objectives cannot really be binding on the other member states.

But the second half may seem just as significant, and that is the decision to open membership negotiations with the candidate countries from the European Free Trade Area.

## The summit has failed to resolve doubts about the future of Maastricht, writes Ian Davidson

Britain would always have preferred a larger but looser Community, ideally nothing more than an inter-governmental free-trade area; so the combination of a deal which weakens the Maastricht treaty, and a decision to open the Community to a significant number of new members, looks very much like a setback for countries like France, which were demanding a "deeper" and more integrated Community.

However, it may be premature to claim a final victory in the long-running battle between the widening and the deepening. The widening has won a skirmish, with the decision to open negotiations on the enlargement of the Community, even before the Maa-

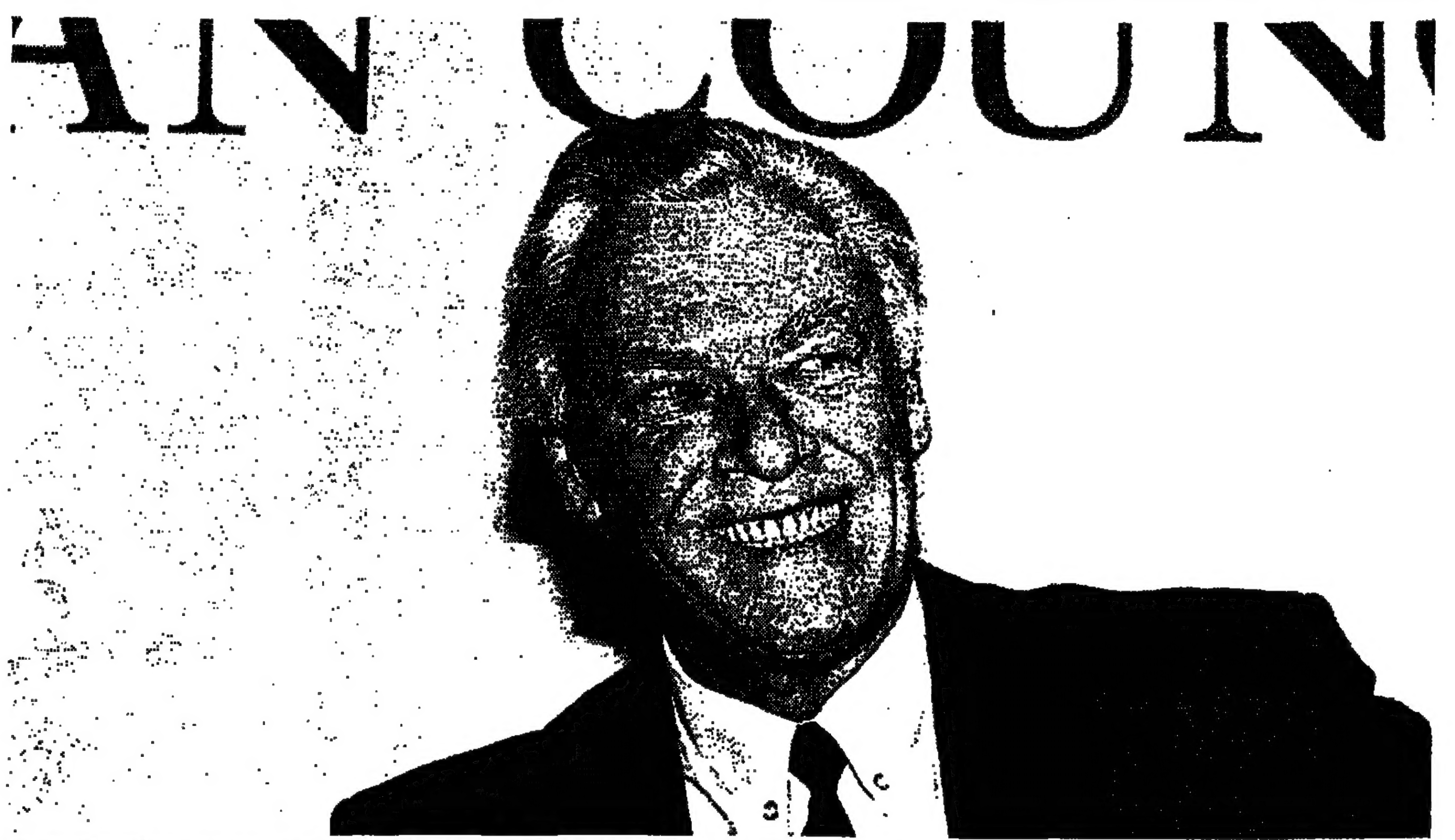
tricht treaty is ratified by all 12 member states. But these negotiations will compel the 12 to debate how a larger Community is to be governed and how it is to take decisions.

By definition, the 12 will have to choose between a Community which will be hamstrung by swollen numbers, or one which must accept more majority voting for the sake of effectiveness. They will have to consider whether the universalist model of European integration can be maintained with a larger number of member states, or whether it will be necessary to go towards a multi-speed Europe. And they must consider whether a large Community can continue to give a large voting premium to small member states.

In other words, the prospective enlargement of the Community will compel the 12 to confront constitutional issues which remained largely suppressed or shelved in the Maastricht treaty. This will not be an attractive agenda for the inter-governmentalists; and yet on certain aspects of this enlargement agenda, for example the relative voting weights of large and small countries, Britain, as a large country, could have a position similar to that of the deepeners. This is just one of the ironies of the integration game.

The paradox is that these negotiations will require the prospective member states to swear their firm commitment to all the obligations of the European Community as modified by the Maastricht treaty; but they will be conducted under the presidency of Denmark, which has just been offered a comprehensive opt-out from these very obligations. There is no easy way of avoiding this charade; but it cannot fail to cast a certain disrepute on the treaty process.

Some people profess to believe that the four or five applicants from Efta can be admitted without a serious federal-intergovernmental argument. Subsequent phases of enlargement to 25 or 30 member states would call for far-reaching revision of the Community's rulebook; but this first little enlargement



Danish Prime Minister Poul Schlüter: won a series of opt-outs in "legally binding" form from Maastricht

would not require any significant reduction in the voting premium accorded under present rules to the small member states.

The naïveté of this position will not stand up to the pressure of reality; the terms of this enlargement will automatically dictate the terms of subsequent enlargements. In a Community of 16 or 17, the small countries would be in a massive numerical majority, with half the weighted votes but with only a quarter of the population.

Everybody knows that this weighting discrepancy will either be rectified before the Efta enlargement, or it will

never be rectified. Since the question cannot be postponed to some easier time, it will be addressed, implicitly or explicitly, during the course of the Efta enlargement negotiations.

The same logic will require a thorough review of the constitutional issues in the Maastricht treaty. The treaty itself calls for a special inter-governmental review conference in 1996. The conventional hypocrisy is that this review should take place after the admission of new members. No-one seems to acknowledge that it is an extraordinary idea that new members, who have spent 40 years refusing to join the Community, should be voting on

the revision of the Maastricht treaty within weeks of their admission to full membership. The logical inference is that the 12 will have to hold their Maastricht review before they admit new members from Efta.

Moreover, there will be one serious policy embarrassment in the admission of members from Efta. The Danes may be desperate to back out of the commitment to a common foreign and security policy, including eventually a defence policy. But some candidate countries, like Finland and Sweden, are keen to take on these new aspects of the Community, and will eagerly seek to join the Western European

Union defence grouping. Here lies the rub. The WEU treaty includes a far-reaching mutual security guarantee, but it does not have any military organisation; all that has long since been delegated to Nato.

The natural assumption is that the new arrivals should also join Nato; and yet it is virtually inconceivable that Washington would agree to an extension of its nuclear security guarantees, just when it is shrinking its military presence in Europe.

So if the new Community members seriously claim the protection of WEU, the existing member states will have to consider whether WEU is to be

endowed with real military capability; which would mean a military organisation distinct from Nato and therefore separate from the US.

It is possible, of course, that none of these questions will be put to the test. The Swiss have already voted against the European Economic Area, which would be an ante-chamber to full membership; and opinion polls suggest that a majority of the Finns, the Norwegians and the Swedes are opposed to full membership. But perhaps they will change their minds, when they see that the Danish deal means that joining the Community does not really mean anything much after all.

## Problem stays on the agenda

By Robert Mauthner

GREECE has temporarily succeeded in blocking European Community recognition of the former Yugoslav republic of Macedonia, but the problem remains on the agenda of foreign ministers.

The concluding declaration of the Council on Macedonia was variously interpreted as being a victory for the Greek position or merely a postponement of a particularly delicate decision, which could have scuttled the whole conference.

If other member countries had insisted on recognising Macedonia under that name, Greece could have blocked approval of all the other important decisions taken by the heads of government, including those on Denmark and the future financing of the Community. Unanimity remains the rule for European Councils. Though Mr Constantinos Mitsotakis said after the meeting that the EC would continue to be bound by "the united policy" proclaimed in last June's Lisbon declaration, which stated that the former Yugoslav republic would be recognised only under a name other than Macedonia, the Council's statement on the subject was more ambiguously worded.

The special representative, Mr Robin O'Neill, a former British ambassador, had suggested various compromise proposals acceptable to the republic's president Kiro Gligorov, including naming the new state "the Republic of Macedonia (Skopje)", to distinguish it from the northern Greek province of Macedonia.

The Greeks claim that to call the new state Macedonia would provoke ethnic conflict in the region, particularly by encouraging territorial claims on the neighbouring Greek province.

Though Mr Douglas Hurd, the British foreign secretary, said no participant had challenged the Lisbon declaration, Mr Hans van den Broek, his Dutch opposite number, said the summit decision to give Macedonia economic aid and the despatch of United Nations military observers there provided the basis for further discussions about recognition.

It was agreed that the Community would provide Ecu100m (280m) of humanitarian and technical assistance to Macedonia, half of which would be provided by the European Commission out of common funds and a matching amount from member states.

● Macedonians said yesterday they were deeply disappointed, but not surprised, by the EC's failure to recognise their republic. Laura Silber writes from Skopje.

## MACEDONIA

## Good news for Nordic applicants

## ENLARGEMENT

By Robert Taylor in Stockholm

NORDIC governments welcomed the decision to start the process of EC enlargement early in the new year. Formal negotiations are expected to begin with Sweden, Austria and Finland by the end of January and with Norway within a few months.

"The outcome of Edinburgh strengthens our chances of becoming a member of the European Union in January 1995," Mr Carl Bildt, Sweden's prime minister, said yesterday.

His trade minister, Mr Ulf Dinkenspiel, who will lead Sweden's negotiation, added: "Conditions have improved radically.... We will have entry terms in good time to put to a referendum in 1994."

However, a poll published yesterday indicated that as many as 50 per cent of Swedes oppose membership, with 33 per cent in favour and 17 per cent uncommitted. Strongest hostility was among people aged 16-29 and blue-collar workers.

Opinion remains more favourable in Finland, where a majority back membership. But in Norway attitudes are hardening strongly against EC entry. In the latest survey 54 per cent said No and only 30 per cent Yes.

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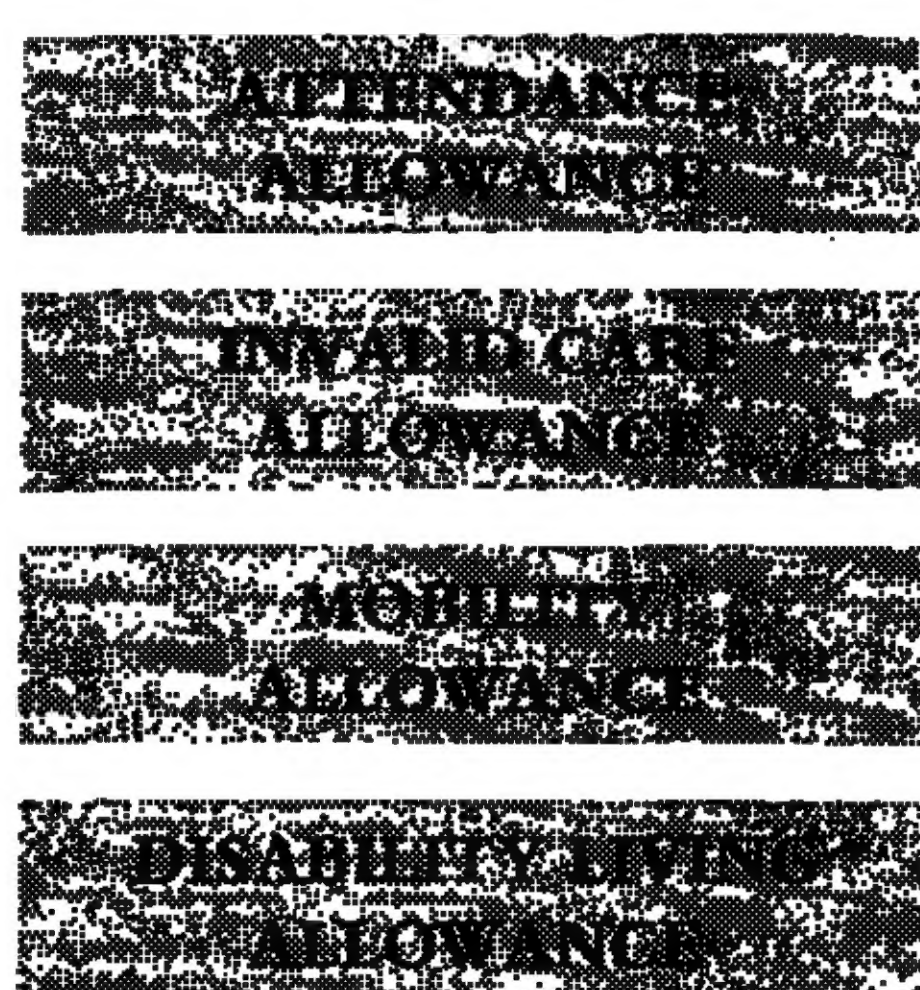
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Date of Birth: day \_\_\_\_\_ month \_\_\_\_\_ year \_\_\_\_\_

National Insurance Number (if known) \_\_\_\_\_

Please tick the benefits to which the above named may be entitled and give the reference number if known:

☐ Attendance Allowance - Reference No. \_\_\_\_\_

☐ Invalid Care Allowance - Reference No. \_\_\_\_\_

☐ Mobility Allowance - Reference No. \_\_\_\_\_

☐ Disability Living Allowance - Reference No. \_\_\_\_\_

Country where the above person was paid the allowance before being disallowed,

☐ England, Wales or Scotland ☐ Northern Ireland

Present Name and Address for correspondence (please print)

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_ Country \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

If you are not the person named above, what is your relationship to

that person? \_\_\_\_\_

benefits  
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NEWS IN BRIEF

## Italian poll set to test old parties

MUNICIPAL elections yesterday and today in 65 Italian cities and towns will provide the first serious test of electoral opinion in the country since the April general elections, writes Robert Graham in Rome.

The main focus is on the towns of Monza and Varese in the Milan industrial belt, where opinion polls show the populist Lombard League is likely to consolidate its position as the main political party in northern Italy at the expense of the Christian Democrats and the Socialists.

The League burst on the scene in the past 18 months with limited funds but profiting from public disillusion with a corrupt political establishment.

It is aiming for over 35 per cent of the vote in Varese and hoping to control its first local administration in the country.

## Warning by French left

France's ruling Socialists launched their campaign for next March's election yesterday with a warning that their forecast rout would give the political right a boundless control over the state.

Prime Minister Pierre Bérégovoy told a seminar of Socialist election candidates a parliament totally in the hands of right-wing parties would be "a darkroom."

Mr Edmond Alphandery, a centrist politician, yesterday turned down the job of France's junior European Community Commissioner, saying he would rather run for re-election to the French parliament next spring, writes David Buchanan in Paris.

## Dushanbe battles rage

Gun battles raged in suburbs of the Tajik capital yesterday with Islamic guerrillas stepping up hit-and-run attacks two days after the arrival of a new government in Dushanbe, Reuters reports from Dushanbe.

The guerrillas set ablaze fuel storage tanks and fought with ex-communist gunmen in the city's southern Islamic stronghold of Avul where a senior Russian army officer said six people were killed in clashes which knocked out a thermal station providing much of the heating of the city.

## CSCE moves on Russians

The 52 nation Conference on Security and Co-operation in Europe agreed at the weekend to establish a secretariat in Estonia to safeguard the minority rights of Russians living in the former Soviet state, writes Robert Taylor in Stockholm.

Observers are expected to be in place early in January. The move supports a Swedish initiative taken a few months ago to try to reduce ethnic tensions in Estonia. The CSCE mission would provide Russians there with means to air grievances they might have about discrimination against them by the Estonian authorities, the government said.

# Clinton friend to head White House

By Jurek Martin in Washington

BY common consensus, the best White House chiefs of staff in the past 20 years have been Dick Cheney in the Ford administration and James Baker, in President Reagan's first term: the worst are considered to have been Hamilton Jordan, who worked for President Carter, and John Sununu under President Bush.

The first two were successful because of their native political skills, their understanding of their presidents and administrations and a relative self-effacement on the job.

The second pair fared less well because they were combative and were sometimes contemptuous of Washington and its ways, and, in Mr Sununu's case, ferociously ideological.

In choosing Thomas F. McLarty, the Arkansas businessman whom he has known since kindergarten, President-elect Bill Clinton has made it clear that he wants in this sensitive position somebody he instinctively trusts and who is more interested in pursuing the presidential agenda than any personal crusade or self-publicity.

With 11 senior positions now in place, the Clinton administration is shaping up as an interesting combination of the Washington and Wall Street establishment mainstream on the one hand and a new breed of outside activists on the other.

More than that, he expects them to work together in ways that the capital has not seen for some time.

Ron Brown, named on Saturday to be the next Secretary of Commerce, is the quintessential political insider.

The 51-year-old black lawyer's career has moved seam-



US President-elect Bill Clinton announces his choice of Democratic Party chairman Ron Brown (left) as commerce secretary and Thomas McLarty (right), a lifelong friend, as White House chief of staff during a weekend news conference in Little Rock, Arkansas

lessly from the civil rights movement through the Urban League, the effective lobby for the cities, and a stint as the Rev Jesse Jackson's right hand to a fabulously successful four years as national Democratic party chairman.

His law firm represents many of corporate and foreign clients, including, at one stage, the Hall of President Duvalier.

These connections may make his confirmation hearings tougher than most but Mr Brown's ability to sail through apparent political and private conflicts of interest is impressive.

Mr Clinton said he wanted

the commerce department

under Mr Brown to be a "powerhouse" in Washington.

Partly because of the commerce department's amorphous responsibilities and partly because it has been traditionally used purely for political reward, this has not been its reputation for many years.

But, in the Clinton administration, it will have a place on the new economic advisory body to be chaired by the president himself and directed by Robert Rubin, now the co-chairman of Goldman Sachs. So will another relative backwater, the labour department, under Robert Reich, the Har-

vard professor.

Mr McLarty's appointment, in the opinion of many political observers, makes more likely the selection of Mr Warren Christopher as secretary of state.

In an interview yesterday, Mr Christopher, a former deputy secretary of state and now the director of the transition team, brushed off all such speculation, which is based mostly on the fact that he was thought to have had the option of three jobs, two of which have been otherwise earmarked: chief of the White House staff and, though yet to be determined, attorney general.

It is also deemed significant

that Mr Clinton has chosen his economic and social policy teams first, thus fulfilling an essential promise of his campaign.

On Friday, he took issue with a questioner who wondered why he had not first named the four cabinet secretaries traditionally considered the most senior - state, defence, justice and treasury.

He was careful to add, however, that this did not imply a relegation of foreign and security policies, which, he said, should be active and pre-emptive so that his administration would not be "swamped" by a succession of demanding external crises.

## Nafta urged as model for western trade pact

By Stephen Fidler, Latin America Editor

THE North American Free Trade Agreement should be used as a core around which to build a western hemisphere free trade pact, an influential Washington-based foreign policy group says.

The proposal is one of a series of recommendations in a report published today by the Inter-American Dialogue of the Aspen Institute. The report from the group, which includes prominent Democrats, is in part aimed at influenc-

ing Clinton administration policy towards Latin America.

The report argues that a new multilateral organisation is needed to guide and co-ordinate progress towards a western hemisphere economic community. In the meantime, the Nafta partners - the US, Canada and Mexico - should begin consultations to establish procedures for building Nafta into a hemispheric free trade pact.

Chile would be a likely first candidate for membership.

Efforts should also be made to pave the way for the participation of the

smaller countries of central America and the Caribbean, which are likely to suffer from Nafta.

Rejection of Nafta would, says the report, "gut the core of future hemisphere-wide trade arrangements".

The report also proposes strengthened collective action among American states to preserve democracy in the region and a forceful collective attack on poverty and inequality.

It calls on external organisations to put financial, intellectual and political muscle behind national anti-poverty programmes, with the World Bank and

the Inter-American Development Bank committing at least one-third of their Latin American lending to poverty reduction. It also urges governments of the hemisphere to promote negotiated settlements of Latin America's remaining guerrilla conflicts and to look at their armed forces, with the objective of establishing firm civilian control over the military.

*Convergence and Community: The Americas in 1993. Published by Inter-American Dialogue of the Aspen Institute, 11 Dupont Circle NW, Suite 502, Washington DC 20036.*

## German investors tax the Bundesbank

By David Waller in Frankfurt



ACCORDING to cliché, Germans stick to the rules. When it comes to tax affairs, however, they are compulsive rule-breakers.

Only a desire to get round the law can explain the massive flow of German funds into Luxembourg and other tax havens before next month's introduction of a 30 per cent tax on interest income.

There is nothing illegal about shifting funds to Luxembourg - so long as the income on those investments is subse-

quently declared to the tax authorities.

But it seems many Germans have no intention of declaring this income. Mr Johann Wilhelm Gaddum, a member of the Bundesbank's policy-making council, made this clear in a speech last month, when he condemned the outflows as a form of "money-laundering".

He said the amount of money likely to leave Germany by the end of the year would exceed the sum which departed in 1988-89.

Then, Germany's financial markets and the D-Mark were disturbed by a cash exodus before the introduction of a 10 per cent withholding tax on interest income.

In the first nine months of this year, Germans invested DM31bn in Luxembourg funds managed by German banks, and only DM4bn in domestic funds.

Dresdner Bank's investment subsidiary recently reported that funds under management in Luxembourg have tripled to DM14bn since the beginning of the year. At Deutsche Bank, Luxembourg funds have nearly doubled to DM7bn.

These figures understate the overall outflows. They do not include money deposited with non-German institutions in Luxembourg - or cash trans-

ferred across other frontiers, to Switzerland or Austria, for example.

Frankfurt economists estimate that the total outflow for the year could be about DM100bn, compared with DM72bn which left the country in 1989.

The flow of money worries the Bundesbank. It has contributed to extra demand for banknotes, as Germans have cashed in their investments and driven across the border to Luxembourg to buy securities there.

"It is entirely normal for someone to walk into our branch here with DM50,000 or DM200,000 in cash," says the head of the Luxembourg subsidiary of one German bank.

The increase in cash in circulation has been one factor behind the sharp growth in money supply, now growing at an annualised rate of more than 10 per cent.

The transfers are also of concern for the German government, keen to increase its tax revenues so as to reduce its budget deficit.

Mr Theo Waigel, the finance minister, has aimed a number of verbal fusillades at the banks, accusing them of publishing misleading advertising for their Luxembourg operations.

The new tax is designed to avoid the problems associated with the original 10 per cent withholding tax introduced at the beginning of 1989. This tax drove foreign investors away from the German markets and was abolished a few months after it was introduced because of the damage it was doing to Germany's status as a financial centre. The German constitutional court in Karlsruhe subsequently ruled that a replacement tax would have to be implemented.

This time, foreign investors are excluded, and most domestic taxpayers will not have to pay any tax either.

Individuals earning interest of DM6,000 or less, and married couples earning DM12,000 or less, will be excluded from the tax.

It is thought that only the wealthiest 20 per cent of the population will be affected. Assuming interest rates of 6 per cent, a married couple must have savings of over DM200,000 before they become liable for any tax.

Many people however seem to be moving their funds although their income is below the tax threshold. One factor may be the banks' advertising which - as Mr Waigel has complained - tends to give the impression that everyone

would be better off investing in Luxembourg.

Another reason is that people are seeking to avoid tax on income which should have been declared years ago. The new tax is deducted at source. For investors to receive a rebate if their income falls below the threshold, they must first declare it to the tax authorities.

"If you have hidden your capital for the last five years, you have to continue to hide it," says one Luxembourg banker. "If you suddenly put it in your income tax declaration, the tax office will obviously ask where it came from. You will end up being taxed retroactively."

"It is fair to say that taxes have never been paid on the funds which are flowing now," says Mr Pierre Jaans, director general of the Luxembourg Monetary Institute, the Grand Duchy's equivalent to a central bank.

Mr Jaans says Luxembourg would be willing to participate in a pan-European harmonisation of tax systems, which could help prevent such large capital transfers in future. Since the chances of this happening are fairly remote, the D-Mark will presumably carry on taking the road to Luxembourg.

# Military force sought over Serb flights

By Robert Mauthner in Edinburgh

INTERNATIONAL pressure for the use of force to implement the "no-fly" zone over Bosnia, imposed by the United Nations last October, was stepped up over the weekend, with both the US and France calling for military measures against Serbian aircraft violating the ban on flights.

Following the adoption of an unusually tough declaration condemning the leadership of Serbia and the Bosnian Serbs by European Community leaders, Mr François Mitterrand, the French president, said France would formally ask the UN Security Council to authorise the enforcement of the zone. The original Security Council prohibiting military flights over Bosnia did not specify how the ban on flights would be enforced.

Mr Mitterrand's announcement followed a statement earlier on Saturday by Mr Lawrence Eagleburger, the Secretary of State in the outgoing US administration, that the US was now also ready to back the use of force against Serbian aircraft. Mr Dick Cheney, US defence secretary, joined Mr Eagleburger in expressing over the weekend a hardening on the US position.

The decision has the backing of Mr Bill Clinton, the US president-elect, who had spoken in favour of enforcement the previous day.

President Mitterrand went a step further than the declaration of the European Council, which merely stated that the 12 leaders reaffirmed their support for Security Council resolution 787, "which provides for the necessary measures, including military, to be taken to ensure the safe delivery of humanitarian assistance." But there can be little doubt that opinion among other members

of the Security Council, including Britain, which has so far been very hesitant about the adoption of measures that could endanger the lives of British troops of the UN contingent in Bosnia, is swinging in favour of some kind of military action to prevent Serbian aircraft from violating the UN ban.

In its declaration on the former Yugoslavia, the European Council accused both the Serbian and Bosnian leadership of bearing "the primary responsibility" for the conflict "and its brutality" in the region.

In defiance of UN Security Council Resolutions, the Serb forces in Bosnia-Herzegovina have undertaken a savage campaign of military aggression, ethnic cleansing and the persecution and torture of civilians," the EC leaders said in their concluding document. "Those responsible for all these crimes against humanitarian law by the different sides will be held personally accountable and brought to justice."

The Council said that it would not accept the partition of Bosnia-Herzegovina and strongly supported the efforts of the co-chairmen of the Geneva peace conference, Mr Cyrus Vance and Lord Owen, to achieve a constitutional settlement which would recognise the multi-ethnic character of Bosnia-Herzegovina.

It also called for more action to provide protection to the civilian population.

The leaders stated firmly that the autonomy of the province of Kosovo within Serbia must be restored and said that it was in favour of "a UN presence" in Kosovo.

In a separate declaration on the treatment of Moslem women in the former Yugoslavia, the European leaders said they were "appalled" by the systematic detention and rape of Moslem women.

## IMF may revoke membership of Yugoslavia

By George Graham in Washington

DIRECTORS of the International Monetary Fund met in Washington today to consider revoking Yugoslavia's membership, opening the way for Croatia and Slovenia to rejoin the IMF and its sister institution, the World Bank.

The move would call into question around \$1.7bn (£1.1bn) of World Bank loans outstanding to the other Yugoslav republics, possibly leading to a formal default for the first time in the Washington-based development institution's history.

Discussions have been under way for some time over a legal formula that would, in essence, declare that Yugoslavia no longer exists and that its IMF membership has therefore lapsed. The World Bank would be obliged by its rules to follow suit.

The republics could then be invited to reapply for membership, but under conditions that would ensure that Serbia, viewed as the aggressor in the civil war, would not qualify.

Croatia and Slovenia have accepted responsibility for their share of World Bank loans made to Yugoslavia, although Serbia could repudiate its portion, estimated at \$1.5bn - roughly equivalent to a full year's net income for the World Bank.

Bank officials say their exposure is already partially provisioned, but acknowledge that if

they had to provision their Serbian loans in full it would cause a "downward blip" in net income.

While the IMF has some credits outstanding to Yugoslavia, its exposure is much smaller than the bank's, and some bank directors have questioned whether their Fund colleagues are sufficiently sensitive to the financial implications of ending Yugoslav membership.

But the twin political imperatives of, on the one hand, allowing Croatia and Slovenia into the international financial community and, on the other, drumming Serbia out, are likely to override these financial considerations.

The bank has already had to place \$1.7bn of its total \$2.02bn loans outstanding to Yugoslavia, which includes the Serbian, Bosnian and Macedonian shares - in "non-accrual" status, which means they are not being serviced, so repudiation would add little risk.

Counting Yugoslavia, the World Bank has around \$3.8bn of loans in non-accrual status, nearly 4 per cent of its outstanding loan portfolio. Its provisions at the end of its financial year amounted to \$2.54bn, or around 2.5 per cent of outstanding loans.

Some industrial member countries have argued that this provision ratio is inadequate and Mr Denis Desautels, Canada's auditor general, last month joined this criticism.

## Russia's western adviser seeks boost in financial aid

By John Lloyd in Moscow

THE Russian government's senior western economic adviser is pressing the future Clinton administration to champion a new multi-billion-dollar package of foreign aid for Russia to support a new attempt to stabilise the country's finances and prepare for an expected surge in unemployment levels in the coming year.

Mr Jeffrey Sachs, the Harvard University economist who is working closely with the reform team under Mr Yegor Gaidar, acting prime minister, said yesterday that preliminary talks with the Clinton transition team indicated a willingness to grapple with what he described as "the most important foreign policy issue facing the US and the west."

Mr Sachs' proposals would total roughly the same as the \$24bn package put forward in the summer by the Group of Seven industrial countries, which has so far had little effect on the crisis-ridden Russian financial structure. One cornerstone of that package, an IMF standby agreement, which should have been reached by the end of this year, has been indefinitely postponed.

The main points in Mr Sachs' package are:

- An emergency social fund to cover the vastly increased social spending from mass redundancies, and to fund pensions and health care. This would be set up by the G7 governments.
- An industrial restructuring fund to convert the military goods sector and re-equip obsolete but otherwise viable plants

- to be administered by the main export credit guarantee agencies, the World Bank and the European Bank for Reconstruction and Development.

● A small business fund to supply capital and expertise to the growing private sector, to be administered by the EBRD.

● Measures, including debt rescheduling, a rouble stabilisation fund and a balance of payments support package, to be set up and administered by the IMF.

The plan takes much of the authority for the assistance away from the IMF, to which the G7 gave overall management of the \$24bn package.

Mr Sachs, whose passionate advocacy has both irritated and spurred the IMF and G7 governments, believes the Fund has been part victim, part villain in a general foreign

indifference to the looming problems of Russian reform.

Mr John Odling-Smee, director of the IMF's European II department and as such the senior executive on the IMF's Russian programme, argued recently in a recent article in the FT that Russia's economic stabilisation programme "is taking longer than expected because of the [Russian] authorities' inability so far to decide on firm monetary and fiscal policies."

Mr Sachs believes that lack of IMF western decisiveness, especially in offering a \$6bn fund to stabilise the rouble at the beginning of reforms in January, provoked the slide into higher and higher inflation and budgetary deficits.

He says that of the \$24bn package, only \$1bn from the IMF and \$800m industrial reha-

bilitation loan from the World Bank has been issued, and that could not be used in 1992. A further \$8.5bn of bilateral credits have also been issued by various countries - but all of it short-term, at market interest rates, with \$2.5bn interest already falling due in 1993 and with no hope of repayment.

"The essence of this process is that it is dynamic, and that you must be actively engaged, not sitting back and bemoaning lack of readiness of the Russian government." The provision of a stabilisation fund would completely alter the environment under which the reformers work.

● Russia's central bank chief has ruled out introducing a new Russian currency for the time being. *Financial Times* news agency said, Reuters reports from Moscow.

Central bank chairman Mr Viktor Gerashchenko was reacting at the weekend to calls by senior officials for a re-think about maintaining a single "rouble zone" because neighbouring states have already brought in their own currencies.

The rouble zone covers the majority of the 15 former Soviet republics which have retained the old currency.

But Ukraine and the three Baltic states have already abandoned the rouble, and others are considering following suit.

Vice-President Alexander Rutskoi said last month that those states which were forcing the rouble zone were forcing upon Russia inflation by prompting a flood of unwanted roubles across their borders.

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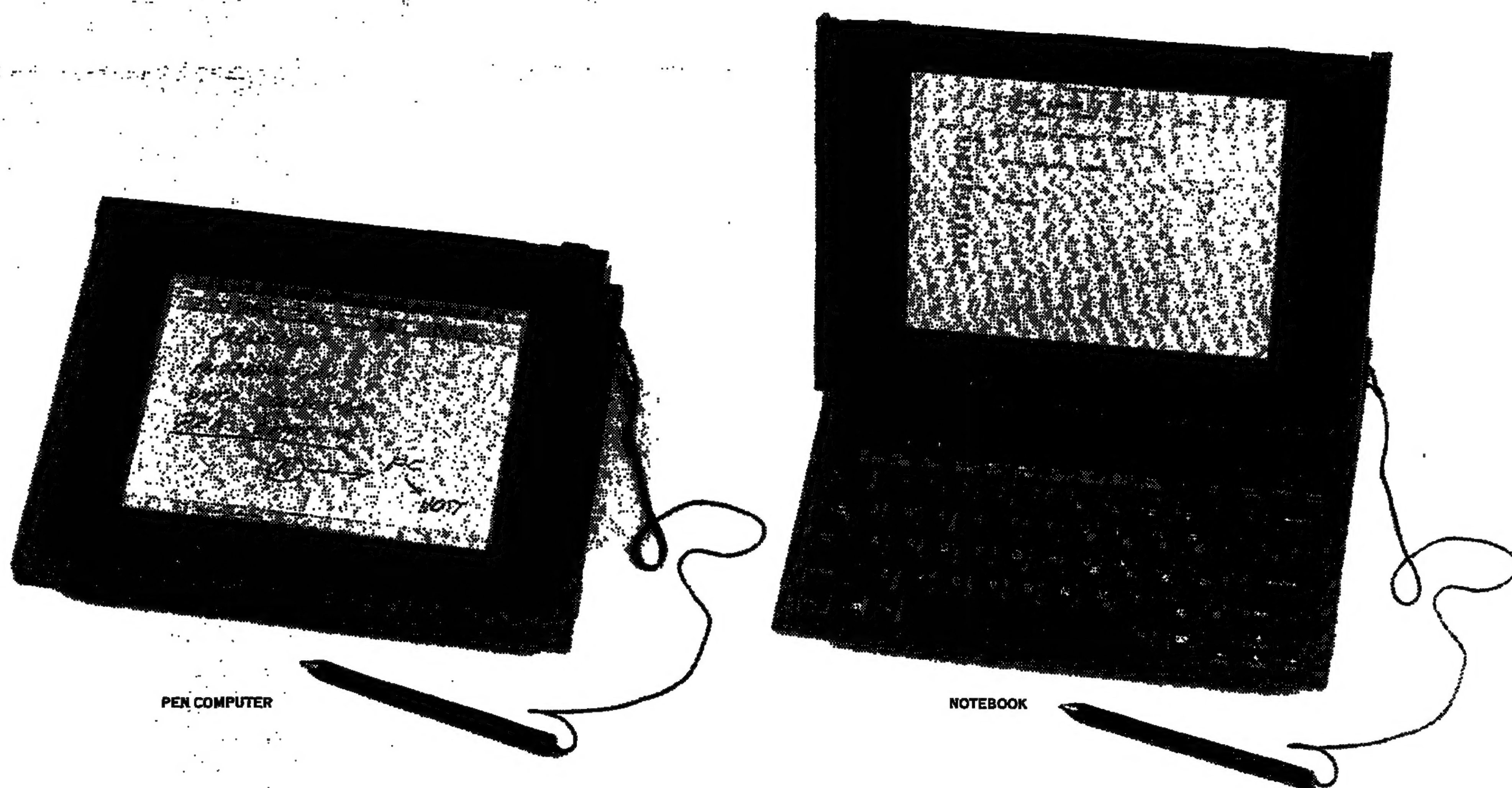


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## NEWS: INTERNATIONAL

# Japan hints at rice ban compromise

By Charles Leadbeater in Tokyo

JAPAN WILL not allow its ban on rice imports to stand in the way of successful completion of the Uruguay Round of world trade talks, Mr. Kichiro Miyazawa, prime minister, made clear this weekend.

"We must never spoil multilateral trade talks," he said, after reshuffling his cabinet on Friday.

Mr. Miyazawa, foreign minister, reinforced Mr. Miyazawa's comments, saying: "Unless the government makes a decision on fundamental principles about the rice issue within this year or by early next year, the Round will not be completed successfully."

Mr. Miyazawa's indication that he would be prepared for Japan to replace its ban on rice imports with a set of import tariffs marks an important change in the government's public approach to an issue which has become a central obstacle to completing the Gatt trade talks.

Until last week the government had insisted that it would not compromise on its demand that the rice ban be excluded from proposals made by Mr. Arthur Dunkel, Gatt director

general, that all import restrictions should be replaced by tariffs.

However, Mr. Miyazawa's comments suggest he is seeking to capitalise on the political momentum of the reshuffle to swing policy towards a compromise. The move is likely to provoke a storm of protest from Japan's rice farmers who form an important part of the governing Liberal Democratic party's rural support.

Government officials indicated that a final decision on how to replace the ban with a set of tariffs would be taken by early in the new year. The focus will shift to whether the government can reach a compromise with the farmers over measures to offset the competition from imports.

It is thought likely that Japan will press for tariffs as high as 700 per cent and for them to be subsequently reduced more slowly than under the current Dunkel schedule.

Mr. Miyazawa said the government would make sure farmers could continue to work in security, possibly by providing financial assistance to promote the rationalisation of agriculture to create larger more efficient farms.

# Monitors warn on Kenyan election

By Michael Holman in Nairobi

COMMONWEALTH observers warned yesterday that Kenya's first multi-party elections since 1966, scheduled for December 29, were in jeopardy unless "irregularities" in last week's parliamentary nominations were resolved.

The warning follows Saturday's unprecedented walk-out by five western ambassadors from a national day parade presided over by President Daniel arap Moi. They said it had become a political rally on behalf of the governing Kiku party.

Allegations that opposition parties had been prevented from nominating candidates in as many as 45 parliamentary seats required urgent investigation, said the Commonwealth observer group in a statement.

Its assessment of the poll is critical. If it decides the elections are not "free and fair" most donors are likely to continue a freeze on aid imposed in November 1991. Unless "irregularities" in last week's nomination process were rectified by a special committee of the electoral commission due to meet today, this part of the election procedure would be considered "severely compromised", the statement said.

Thirteen parliamentary candidates representing the Kenya African National Union (KANU), including Mr. Moi, were unopposed when nominations for the 188 seat assembly closed on Thursday. KANU is being challenged by three main parties - Ford Kenya, Ford Asili, and the Democratic party - in a campaign marked by ethnic rivalries and occasional violence.

The statement, approved in London by Chief Emeka Anyaoku, the Commonwealth secretary-general, also expressed "deep concern" about allegations of "violence, misconduct and intimidation, apart from general impropriety on the part of officials". The elections "may now be at risk", the statement said.

Saturday saw five western ambassadors, including the UN envoy, snub Mr. Moi when they walked out of the stadium holding a parade marking Kenya's 29th anniversary of independence. Groups holding banners and placards extolling the virtues of Mr. Moi and KANU were paraded before spectators. A UN spokesman said the occasion had been turned into a "party rally".

Envoy from the US, Germany, Sweden, Denmark and Canada left shortly before President Moi addressed the rally. Sir Kieran Prendergast, the British high commissioner, stayed in his seat.

# US Marines seize vital Somali airstrip

But confusion grows about the tactics and objectives of the United Nations relief mission, reports Julian Ozanne from Mogadishu



Somali men queue at the main gate of Mogadishu's port in the hope of securing work unloading relief aid

US MARINES in 12 helicopter gun ships yesterday seized a vital airstrip in the starvation-ridden interior of Somalia, as the foreign intervention in the country continued to build up. However, with at least 36,000 troops due in Somalia by Christmas, confusion has begun to set in about the tactics and objectives of the operation, which has a United Nations mandate to provide security for relief efforts.

Yesterday morning, a rifle company of 230 Marines, flying from Mogadishu in their first foray into the interior, landed and secured the former air force base at Bari Dogle, 160km west of the capital. The Marines will pave the way for the imminent arrival of the 10,000-strong US Army 10th Mountain division.

In the capital, military officials said at least 3,500 US troops and 300 French paratroopers and 120 Belgian soldiers had already landed by last night to form the advance forces of the biggest military-humanitarian intervention ever undertaken in black Africa.

At the port, the Marines have offloaded 320 vehicles, including 7 M1-A1 Abrams tanks and several armoured personnel carriers, from a huge supply ship, as part of the fleet which will penetrate further into the interior.

However, there is some confusion among the foreign troops who have secured Mogadishu's port and airport and provided increased security in the anarchic city, over whether they should be disarming the city's residents.

At first, US commanders gave orders for all weapons to be confiscated. Later, only heavy weaponry and machine-guns used in an aggressive or threatening way near checkpoints were ordered to be taken. Guns, which had disappeared from vehicles and pedestrians after the US Marines arrived last week, are gradually re-appearing as bandit attacks continue unabated. Tension was also mounting between French and US officers yesterday. The paratroop-

Mogadishu's main water supply plant was switched on yesterday - after a three-month shutdown - under a United Nations deal that will give Somali gunmen who were guarding it on-the-job training as plumbers and mechanics, Reuters reports from Afgol, Somalia.

Supplies will start reaching the capital in about 48 hours, where priority will be given to hospitals, feeding centres for refugees and public standpipes until fuller service is restored, said Mr. Peter Schumann, representative of the United Nations Development Programme.

Mr. Schumann spent eight weeks negotiating a deal to reopen the plant, which in essence involved convincing gunmen demanding a dollar ransom for not looting it to accept on-the-job training instead.

US troops are expected to move to Baidoa in an armoured convoy by the weekend. Baidoa is the critical staging point for the relief effort to the cut-off interior.

However, aid workers continued to criticise the slow US penetration of the interior, where there are at least 300 deaths a day and up to 2m Somalis are in desperate need of food, medicine, seeds and tools. "The operation is too

slow. The wreckage of one burnt-out vehicle lay abandoned yesterday and residents living near the scene of the incident said the three destroyed vehicles, including a US-made M1-13 APC, had been fighting a rival clan for control of a former military camp when the US helicopters flew overhead on a routine patrol.

US officials said they hoped the incident would set an example. A UN World Food Programme ship carrying 3,000 tonnes of wheat docked at Mogadishu port yesterday, the first aid ship into the city since October 34. US Marines also escorted a food convoy of 30 tonnes of rice, beans and vegetables all through south Mogadishu in the second day of US military-NGO co-operation.

# Hundreds die in Indonesia quake

By William Keeling in Jakarta

AT LEAST 1,200 died at the weekend when an earthquake measuring 6.8 on the Richter scale struck the island of Flores in eastern Indonesia.

Local government officials have appealed for emergency food and medical supplies amid reports that thousands have been made homeless.

The earthquake, which occurred at midday local time on Saturday, had its epicentre 30km north of Flores, creating a tidal wave reportedly 80 feet high.

The wave devastated the coastal town of Maumere, killing more than 1,000 people and badly damaging at least a third of its buildings. The town has a population of 70,000, and local government officials say the death toll there is certain to rise as rescue work continues.

Two ships carrying emergency supplies have already been sent from the neighbouring island of Timor, but the port and airport at Maumere were reportedly damaged by the earthquake, and this is

hampering relief efforts.

With the rainy season at its height, officials are concerned that disease may spread rapidly.

The full extent of the disaster may take several days to emerge as relief teams struggle to visit the plethora of smaller islands nearby.

Flores, with a 1.5m population, lies at the meeting point of two continental shelves, as do many of Indonesia's 13,000 islands, and has a turbulent volcanic past. It has more than a dozen active volcanoes.

In recent years, the island has become popular with tourists, largely because of its rugged volcanic landscape and crater lakes. There were no reports of foreigners being killed, although Maumere is a main point of entry for travellers visiting Flores.

The earthquake is certain to revive environmentalists' opposition to plans to construct a dozen nuclear power stations on the main island of Java, which lies on the same geological fault line as Flores.

# Khmer Rouge raise stakes

KHMER ROUGE guerrillas have fired artillery shells at UN peacekeepers in Cambodia, marking a further deterioration in relations between the two, Reuters reports.

"Two shells landed 75m in front of our tent and one 30m behind," said Mr. Nikolay Nikolaev, a UN election-team supervisor for the Santuk district in central Kompong Thom province.

"The shells were directly aimed at the tent," he said over the weekend, adding that he believed it was the first time UN personnel had been the deliberate target of such an attack.

The shelling occurred in

Krayas, 120km north of Phnom Penh, the capital, on December 6 and was ordered by the commander of the Khmer Rouge's 802 Regiment, Mr. Nikolaev said. No UN personnel had been injured.

The following day, the local Khmer Rouge commander handed a letter to Indonesian UN soldiers ordering the UN to leave Krayas. The letter said: "Untac [UN Transitional Authority in Cambodia] are not eligible to stay in Krayas because unless you get permission from the representative of the National Unity Party of Cambodia, referring to the name of the Khmer Rouge's latest political party,

led by Mr. Khieu Samphan, nominal head of the guerrilla faction.

Citing security concerns, Mr. Nikolaev withdrew the electoral team, but only after most of the people of the commune had been registered to vote in a UN-supervised national election scheduled for next May.

Mr. Nikolaev said Lt-Gen John Sanderson, military commander of Untac, had ordered a squad of Indonesian paratroopers to remain in the commune despite the threats.

Khmer Rouge guerrillas have also begun harassing Cambodians who have been registered by the UN for next year's election, UN officials said.

# Hussein is free of cancer, say doctors

By James Whittington in Amman

KING HUSSEIN of Jordan was confirmed as being free from cancer over the weekend, by doctors at the Mayo Clinic in Rochester, Minnesota.

A statement issued from the clinic by the king's personal physician said post-operative tests had "confirmed the complete success of surgery".

August and doctors had found "no abnormalities". The king will have regular check-ups. Speculation that King Hussein was still suffering from

cancer, despite the surgery, had been rife in Jordan and the foreign press since a speech he made to the nation on 5 November which many people interpreted as an admission that cancer might take his life.

"One recognises that every living soul will meet its destined end," he said. "When the time comes no hour could be postponed or brought forward."

The king left the hospital ahead of schedule and is due to spend a few days in Washington before returning to Jordan.

## INTERNATIONAL ECONOMIC INDICATORS: EUROPEAN COMMUNITY CONVERGENCE

This table gives yearly averages of the economic series most relevant to convergence for Emu. It covers all EC countries except Luxembourg, which is in a monetary union with Belgium, plus an average for the EC as a whole. All figures are percentages.

■ GERMANY						■ FRANCE						■ ITALY						■ UNITED KINGDOM						■ SPAIN						■ NETHERLANDS						
Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	
1981	6.3	10.4	3.9	-3.6	n.a.	13.4	18.3	7.3	-1.9	n.a.	17.8	19.3	7.3	-11.4	n.a.	11.9	14.7	8.8	-2.6	n.a.	14.6	15.8	14.4	-3.9	n.a.	6.7	11.5	7.3	-5.5	n.a.	1981	5.7	11.5	7.3	-5.5	n.a.
1982	5.3	9.0	5.6	-3.2	n.a.	11.8	16.0	8.0	-2.6	n.a.	16.5	20.7	8.0	-11.3	n.a.	8.6	12.9	10.2	-2.5	n.a.	14.4	16.0	16.3	-5.6	n.a.	5.7	9.9	5.8	-7.1	n.a.	1982	5.7	9.9	5.8	-7.1	n.a.
1983	3.3	7.9	6.9	-2.5	40.9	9.6	14.4	8.2	-3.2	n.a.	14.7	18.5	8.7	-10.6	72.0	4.6	10.8	11.0	-3.3	59.1	12.2	16.9	17.8	-4.7	38.3	2.7	8.2	12.4	-6.4	62.0	1983	2.7	8.2	12.4	-6.4	62.0
1984	2.4	7.8	7.1	-1.9	41.6	9.3	13.4	9.7	-2.8	43.8	10.6	15.2	9.3	-11.8	75.1	8.0	10.7	11.0	-4.0	60.3	11.2	16.5	20.6	-5.4	39.9	3.2	8.1	12.3	-6.3	68.1	1984	3.2	8.1	12.3	-6.3	68.1
1985	2.2	6.9	7.1	-0.5	42.3	9.9	11.0	10.1	-2.9	45.5	9.2	13.3	9.8	-12.5	82.0	8.1	10.5	11.4	-3.9	62.9	10.2	17.3	21.6	-6.8	45.2	2.6	7.3	10.5	-4.8	69.7	1985	2.6	7.3	10.5	-4.8	69.7
1986	-0.1	5.9	6.5	-1.3	42.4	2.7	9.1	10.3	-2.7	45.7	5.8	10.9	10.5	-11.7	86.5	3.4	9.9	11.4	-2.4	57.7	8.8	11.4	21.0	-6.0	46.2	0.2	6.4	10.0	-6.0	71.6	1986	0.2	6.4	10.0	-6.0	71.6
1987	0.2	5.8	6.3	-1.8	43.5	3.1	10.2	10.4	-1.9	47.3	4.7	10.8	10.3	-11.0	80.9	4.1	9.5	10.4	-1.3	55.7	5.3	12.8	20.4	-3.2	48.6	-0.4	6.4	10.0	-6.6	75.4	1987	-0.4	6.4	10.0	-6.6	75.4
1988	1.3	5.1	6.3	-2.1	44.1	2.7	9.2	9.9	-1.8	47.2	5.1	10.8	10.8	-10.9	83.3	4.9	8.4	8.5	-1.1	50.5	4.3	11.7	19.3	-2.3	42.9	0.9	6.1	9.3	-5.2	77.7	1988	0.9	6.1	9.3	-5.2	77.7
1989	2.8	7.0	5.6	-0.2	43.0	3.6	8.2	9.4	-1.2	47.4	6.2	12.0	10.6	-9.9	86.0	7.8	9.6	7.1	-1.2	45.1	6.8	13.7	17.1	-2.8	44.2	1.1	7.2	8.4	-5.2	77.8	1989	1.1	7.2	8.4	-5.2	77.8
1990	2.7	8.9	4.8	-1.9	43.6	3.4	10.4	9.0	-1.6	46.6	6.5	12.2	9.9	-11.0	96.5	9.5	11.1	7.0	-0.8	42.8	8.7	14.7	16.1	-4.0	44.5	4.4	6.0	7.5	-5.3	78.3	1990	4.4	6.0	7.5	-5.3	78.3
1991	3.5	8.6	8.0	-2.9	46.2	3.2	9.5	9.5	-1.7	47.2	6.4	11.6	10.2	-10.2	101.2	5.9	8.9	9.1	-2.0	43.8	8.0	12.4	18.3	-4.4	45.8	4.0	5.9	7.0	-3.9	78.4	1991	4.0	5.9	7.0	-3.9	78.4
1992	4.1	8.1	8.0	-3.2	44.3	2.9	9.1	10.0	-2.0	47.5	6.3	12.2	10.4	-10.8	105.9	5.9	8.2	10.7	-5.0	45.6	6.1	12.0	17.3	-4.2	46.4	3.9	5.8	6.5	-4.0	79.5	1992	3.9	5.8	6.5	-4.0	79.5

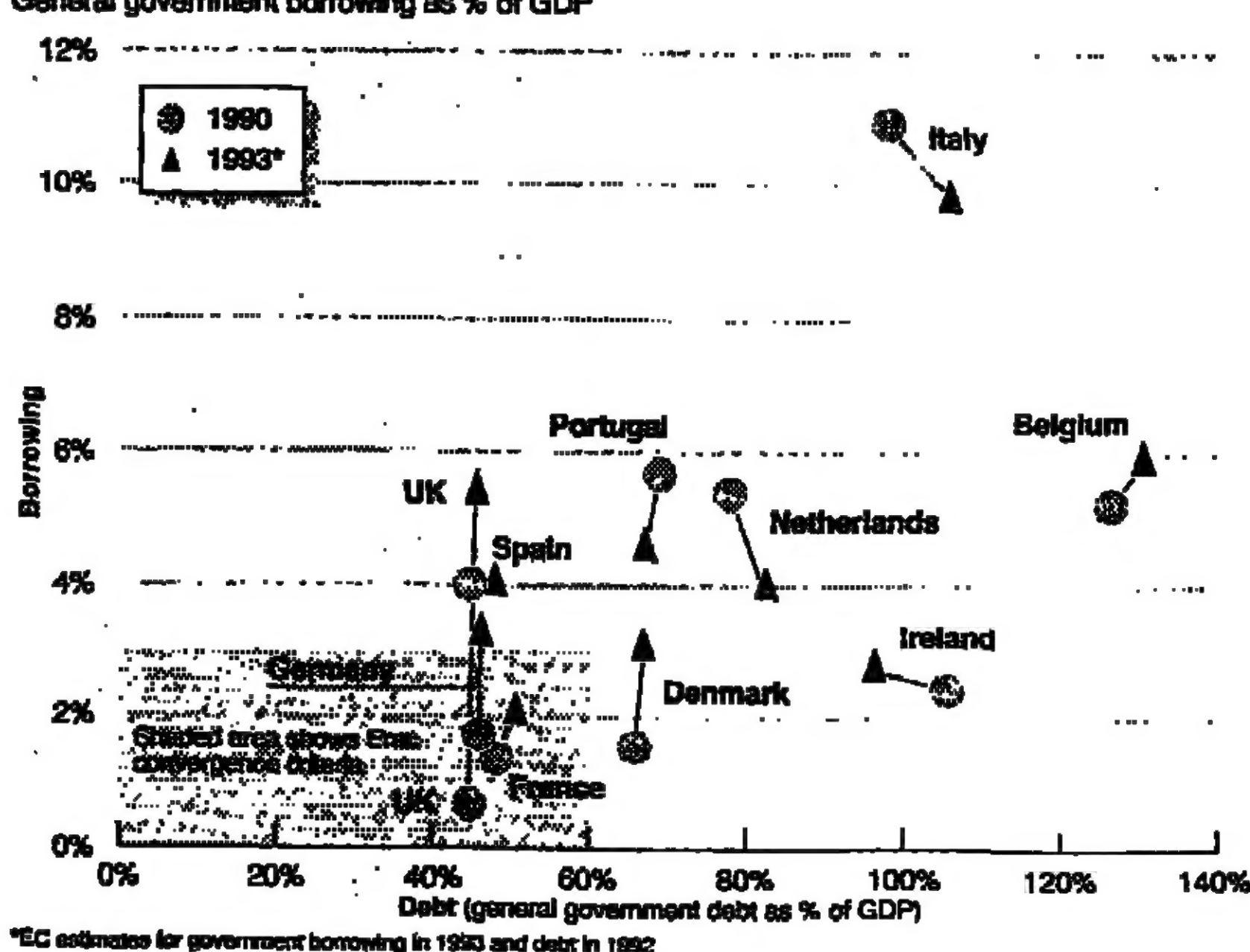
■ BELGIUM						■ PORTUGAL						■ DENMARK						■ GREECE						■ IRELAND						■ EUROPEAN COMMUNITY						
Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	Year	Inflation	Long-term Interest Rate	Unemployment Rate	Govt. Balance as % of GDP	Debt as % of GDP	
1981	7.6	13.6	9.5	-12.6	n.a.	19.9	15.1	8.5	-9.3	n.a.	11.7	19.2	7.6	-6.9	n.a.	24.5	17.7	4.1	-11.0	n.a.	20.4	-17.2	10.8	-13.4	n.a.	12.7	15.1	7.6	-5.5	n.a.	1981	12.7	15.1	7.6	-5.5	n.a.
1982	8.7	13.4	11.2	-11.0	n.a.	22.4	22.3	7.6	-10.4	n.a.	10.1	20.8	9.0	-9.1	n.a.	28.9	15.5	5.8	-7.7	n.a.	17.2	17.1	13.4	-13.8	n.a.	10.1	14.3	8.9	-5.6	n.a.	1982	10.1	14.3	8.9	-5.6	n.a.
1983	6.7	11.6	12.5	-11.3	107.0	25.5	26.5	8.1	-8.0	n.a.	8.9	14.3	9.2	-7.2	74.3	20.2	18.2	7.9	-8.3	44.3	10.5	13.9	15.2	-11.8	97.4	6.4	10.2	9.9	-5.3	n.a.	1983	6.4	10.2	9.9	-5.3	n.a.
1984	6.4	12.0	12.0	-12.0	121.0	22.0	22.0	9.7	-11.2	8.9	9.7	11.2	9.7	-8.2	79.5	22.0	18.5	9.7	-10.8	43.2	10.5	14.8	16.8	-10.8	94.9	7.2	11.0	10.4	-5.3	68.4	1984	7.2	11.0	10.4	-5.3	68.4
1985	4.9	10.6	11.6	-8.5	119.8	19.3	25.4	8.8	-10.1	70.9	4.7	11.2	9.2	-2.0	76.8	19.3	15.8	7.7	-13.9	62.6	5.4	12.7	18.2	-11.2	98.6	6.1	10.9	10.5	-5.2	59.1	1985	6.1	10.9	10.5	-5.2	59.1
1986	3.1	7.9	11.6	-9.1	124.0	11.7	17.9	8.3	-7.2	69.5	3.7	10.0	5.5	-3.4	89.0	23.0	17.5	7.4	-12.6	85.2	3.8	11.1	18.2	-11.2	122.0	3.5	9.2	10.7	-4.8	60.0	1986	3.5	9.2	10.7	-4.8	60.0
1987	1.6	7.8	11.6	-7.1	131.0	9.6	15.4	8.9	-6.8	72.9	4.0	11.3	5.6	-2.4	85.6	14.4	16.0	7.4	-12.2	72.9	3.1	11.5	18.0	-9.1	120.4	3.2	8.4	10.3	-4.2	61.5	1987	3.2	8.4	10.3	-4.2	61.5
1988	1.2	7.8	10.0	-6.9	132.4	9.6	13.9	8.9	-6.8	74.9	4.5	9.8	5.4	-1.9	84.4	13.5	15.4	7.5	-10.1	80.4	2.2	10.5	18.1	-8.0	110.1	3.0	8.4	9.0	-3.7	61.0	1988	3.0	8.4	9.0	-3.7	61.0
1989	3.1	8.6	8.6	-5.5	128.4	12.7	14.8	5.0	-3.4	72.0	4.8	9.9	7.7	-0.5	85.6	13.7	n.a.	7.5	-18.3	85.8	4.1	8.9	15.7	-2.2	104.7	5.1	9.9	8.9	-2.6	60.3	1989	5.1	9.9	8.9	-2.6	60.3
1990	3.4	10.1	7.8	-5.3	127.3	13.2	15.2	4.6	-5.8	68.2	2.6	10.7	8.1	-1.4	86.4	16.2	n.a.	7.2	-19.8	53.7	3.3	10.1	14.5	-2.6	103.0	5.6	11.1	8.3	-4.0	60.3	1990	5.6	11.1	8.3	-4.0	60.3
1991	3.2	9.2	8.3	-6.2	129.4	10.9	14.3	4.0	-6.4	64.7	2.4	9.2	8.9	-2.0	85.7	16.5	n.a.	7.7	-18.5	56.4	-3.1	8.2	16.2	-2.5	102.6	5.5	10.4	8.2	-4.4	61.4	1991	5.5	10.4	8.2	-4.4	61.4
1992	2.6	8.8	8.1	-6.0	129.6	9.1	11.8	4.5	-5.5	66.7	2.2	8.9	8.5	-2.0	85.6	19.2	n.a.	8.1	-19.2	59.0	4.4	8.9	17.7	-2.5	100.4	4.4	8.7	8.4	-5.0	63.8	1992	4.4	8.7	8.4	-5.0	63.8

German figures for 1991 and 1992 refer to unified Germany. Previous years refer to West Germany only. Inflation: annual percentage growth in consumer prices. Interest rates: nominal long-term government bond yields. Unemployment rate: percentage of the civilian labour force. Government balance: the net lending (+) or net borrowing (-) of general government as a percentage of GDP. Debt: the gross debt of general government as a percentage of GDP. 1992 figures for inflation, bond yields and unemployment are averages over year to date. (German: Jan-Oct). Figures for the Government balance and Debt are European Commission forecasts. Source: European Commission.

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## Fiscal positions and the Maastricht criteria

General government borrowing as % of GDP



## The road from Edinburgh to Emu still looks bumpy

THE Edinburgh summit will be hailed as a triumph. But euphoria should be contained. The journey to economic and monetary union may have not been abandoned, but the road ahead will be bumpy.

The past three months have demonstrated how bumpy it can be. When the FT last published a table on convergence, on December 9, 1991, many thought that the ERM, which had operated without a significant realignment for almost five years, offered a smooth road to Emu. Things look rather different after the exit of the Italian lira and pound sterling and the realignments of the Spanish peseta and Portuguese escudo. Whether the French franc retains its parity with the ERM is likely to prove more important for Emu than anything agreed by the 12 leaders of the European Community over the weekend.

It is the Bundesbank's determination to preserve the value of the D-Mark, despite German unification, that has so shaken the ERM. But the Bundesbank is not engaged in a quixotic tilt at inflationary winds. Its goals are shared by many

Germans, as was demonstrated by the terms on which the Bundesbank ratified the Maastricht Treaty earlier this month. By insisting that they be given another chance to examine Emu before signing away the D-Mark, German politicians have warned others of their opposition to any watering down of the convergence criteria.

The criteria in the Maastricht Treaty were that a country shall possess:

- "an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best-performing member states in terms of price stability"; and
- "an average rate of inflation" that does not exceed by more than 1½ percentage points that of, at most, the three best-performing member states;

What, if any, progress has the EC been making towards the convergence aim? Eight countries meet the interest-rate criterion, the same countries also meeting the inflation criterion. The countries with the best inflation performance in 1991 were Belgium, Denmark and France.

Only seven countries - the minimum number for Emu in 1997 - meet the ERM criterion. But who knows how many more realignments may be needed on the ERM? Only France, Denmark and Luxembourg are forecast to miss the government bor-

rowing criterion next year (see chart). As for the target for government debt, it is currently met by only five countries.

In sum, Luxembourg and France alone would pass all the tests for Emu. But Germany and, intriguingly, Denmark are close enough to make the grade. Thus, half the countries eligible for Emu do not want to join and one of the other two, Luxembourg, is already in a currency union. Ireland still fails on public debt; the UK now succeeds on inflation, but fails on the fiscal deficit and ERM membership; Belgium and the Netherlands fail on both aspects of fiscal policy; Spain fails on everything, apart from the public debt ratio; and Greece, Italy, and Portugal fail on everything.

The economic significance of these criteria must not be exaggerated. They are not logically necessary for a successful Emu. But Emu is a political project. If German politicians want to be difficult, it looks as though they will have plenty of excuses.

Martin Wolf



## Government plans domestic policy initiative

By Philip Stephens and Peter Norman

THE government is to launch a New Year drive to regain its grip on the domestic political agenda after its pre-occupation in recent months with economic crisis-management and the battles over Europe.

Senior ministers are planning a series of initiatives to demonstrate that the recent political turmoil has not dented the government's determination to meet the policy objectives set out in its April election manifesto.

Among the initiatives will be measures to restructure and expand education and training opportunities for 16-to-19 year-olds, intensified co-operation with business through the development of an industrial strategy and significant reforms of the police and of the treatment of juvenile offenders.

Plans for the policy launches reflect growing if still cautious confidence among ministers that the signs of economic recovery have lifted the state of siege imposed on the government by sterling's exit from the European exchange rate mechanism in September.

Mr Norman Lamont, the chancellor, said yesterday he was now "hopeful" that the

combination of a sharp drop in interest rates, the fall in the value of the pound and the recovery measures in the Autumn Statement was beginning to yield results. He said that businessmen were now sounding more optimistic as Britain had positioned itself in a way which held out better prospects for growth.

Other ministers said yesterday the successful outcome of this weekend's Edinburgh summit would also support Mr Major's efforts to rebuild his authority after the disasters of the past few months.

The prime minister was conscious, however, that the government needed to dispel the impression of drift in domestic policymaking. He was determined that the central themes of the election manifesto – opportunity, choice and responsibility – were fully reflected in Whitehall decision-making.

Two of the key elements in the New Year package will be a restructuring of the training and technical education available to teenagers. The departments of education and employment are to co-ordinate a rapid expansion of further education places and the extension of training vouchers and vocational qualifications.

## UK will not publish first half figures

By Emma Tucker

THERE will be no comprehensive trade figures published for the UK in the first half of next year, as a result of changes to the single European market. Figures will not be available for UK trade with the rest of the EC, accounting for more than 50 per cent of the total.

The blackout comes at a sensitive time for the economy, as the effects of sterling's devaluation begin to work through.

Analysis expressed concern over the effects on sterling. "The more worried overseas investors become in the absence of these vital statistics, the lower the pound will tend to settle," said Mr Peter Spencer, chief economist at Kleinwort Benson.

A new EC-wide system, Intrastat – is to be adopted by each of the 12 member states next month. Based on sales tax returns, it will replace the old method of collecting trade data based on customs declarations. Other EC members also expect a delay in the publication of intra-EC trade figures, but the UK is the only one to have decided on a formal six months gap.

Economics Notebook, Page 19



The British are coming: French producers and retailers are preparing for increased demand from UK shoppers buying wine

## Retailers fear EC exodus

Philip Rawstorne assesses the duty-free threat

BRITAIN'S drink and tobacco retailers fear the European single market next month will start a cross-Channel shopping boom that will severely damage their businesses.

Though present duty-free allowances will remain in force, limits on the amounts of beer, wine, spirits and cigarettes travellers can bring back from continental supermarkets for personal consumption will be abolished on January 1.

Lower duties and taxes levied on goods in France and other EC countries are expected to tempt more UK shoppers across the Channel.

Mr Peter Lewis, director of the Wines and Spirits Association, says: "Some small traders may be forced out of business before the government realises it is losing an unacceptable amount of revenue."

The threat of large-scale commercial smuggling as Customs formalities are withdrawn from Channel ports is also worrying retailers in England.

Even under the present restrictions on personal duty-free imports – 1.5 litres of spirits, 50 litres of beer, and five litres of wine – it is estimated overseas liquor purchases total £350m a year.

Next year, each adult will be

allowed to bring in up to 10 litres of spirits, 90 litres of wine, 110 litres of beer, 200 cigars and 800 cigarettes for personal use.

Anyone bringing above those amounts into the country must prove they are for personal use – but a family wedding, say, would be an acceptable reason for exceeding the levels.

The changes will offer cross-Channel shoppers some tempting bargains in spite of the recent sterling devaluation. A couple bringing back their full liquor allowance would save £350 in tax after paying for the ferry crossing and a good meal in Boulogne, according to the Brewers' Society.

Some comparisons of retail prices suggest the savings could be much higher. In France a bottle of Morgan Beaulois is little more than half the UK price; and a packet of 20 cigarettes costs £1 less.

Customs officials, however, believe few travellers will have the money to buy in bulk or the space in their cars and caravans for more than a fraction of the allowance.

The Treasury, which last year collected more than £11bn in duty on liquor and tobacco, forecasts losses of about £250m in excise revenue from cross-Channel buying next year.

The brewing industry pre-

dicts the loss of revenue will be considerably higher. The Brewers' Society calculates that £100m will be lost on beer imports alone.

Nor do events on other borders between high-tax and low-tax countries lend support to a sanguine view of prospects. Denmark's consumers buy 13 per cent of their beer across the border in Germany; Canadian customers account for 25 per cent of the turnover of US drinks retailers in border areas.

Denmark had already begun to reduce its drinks taxes to narrow the differential with Germany, but the UK government had rejected calls to peg or cut duty.

These worries about the impact of legal cross-Channel trade are compounded by the threat of a growth in smuggling, especially of cigarettes.

Germany already has problems with smuggling from Poland. One in nine packets of cigarettes consumed in Canada, where a carton costs £35 more than in the US, is contraband. The illegal market is worth £31.4bn a year.

The UK tobacco industry has warned that the removal of Customs' checks at the ports could open the doors to similar large-scale smuggling across the Channel.

## Nissan forms links with component suppliers

By Chris Tighe

NISSAN, the Japanese carmaker, is strengthening its influence over the quality, cost and delivery time of components it purchases for its north of England plant by forging links with its suppliers.

In a pilot project, Nissan has trained its suppliers' purchasing staff in its "partnership philosophy", so they can help their own suppliers cut costs.

The initiative has led to Nissan personnel visiting second-tier suppliers to work with them on improving assembly line organisation.

"We've developed a partnership philosophy with our first tier suppliers, the intention is to develop that down through the sub-suppliers," said Mr Bob Gray, purchasing manager at

the company's Sunderland plant which will next year make 270,000 Primers and Micras.

A report last month by Cardiff Business School, Cambridge University and Andersen Consulting highlighted an alarming productivity and quality gap between UK and Japanese automotive components suppliers. Many European suppliers, says Mr Gray, are not at present cost competitive with the Japanese.

Nissan operates an "open book" system with suppliers, analysing their costs and production methods and agreeing, says Mr Gray, a "fair and realistic profit".

It floated the idea of its second tier supplier experiment earlier this year among nearly all its 195 European suppliers.

lies in effective regulation and supervision. The CBI shares the view of the Prudential, the UK's largest life company, that this requires a single body responsible for supervision.

The Goode committee was set up in the wake of the frauds at pension schemes associated with the late Mr Robert Maxwell.

## Concern at mortgage plan

The government said it was concerned about a planned change in mortgage indemnity insurance that would make it difficult for owners of private flats in a local authority blocks to sell their properties.

The main mortgage indemnity insurers are negotiating with lenders to tighten policies so that societies will normally be unable to get insurance for mortgages on former council flats which are in blocks above seven storeys in height.

The Department of the Environment said it was worried about the seven storey clause, put to lenders in a contract drawn up by four insurance companies.

## Rover to raise car prices

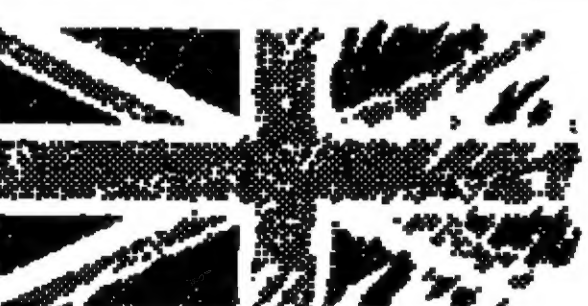
Rover is to raise its new car prices by an average of 2.9 per cent across the range from December 21.

The move by Rover to raise prices follows Ford's announcement earlier this week that it would increase the prices of its UK-built Fiesta and Escort/Orion cars by an average of 4.5 per cent. Ford, along with other car makers that have recently raised prices such as Vauxhall and Volkswagen, have blamed the increase largely on the impact of the recent devaluation of sterling.

## Tags shelved

The government has shelved plans to introduce electronic tagging for offenders who are subject to curfew orders. Mr Michael Jack, Home Office minister, said that spending constraints meant the scheme could not proceed.

## Britain in brief



## Tube scheme delayed by funding split

London Transport has dropped plans to announce a go-ahead for the long-awaited Jubilee Line extension to London's Docklands today because there is still no sign of an agreement with the private sector over the funding of the £1.8bn scheme.

One London Transport source said negotiations over the private sector contribution were "completely and utterly bogged down in detail" and there was no longer any hope of an agreement this year.

## MPs seek Maxwell details

A committee of MPs will this week step up efforts to help pensioners hit by the collapse of the Maxwell empire and is expected to express concern at the cost of unravelling the complex web of deals involving pension funds' money.

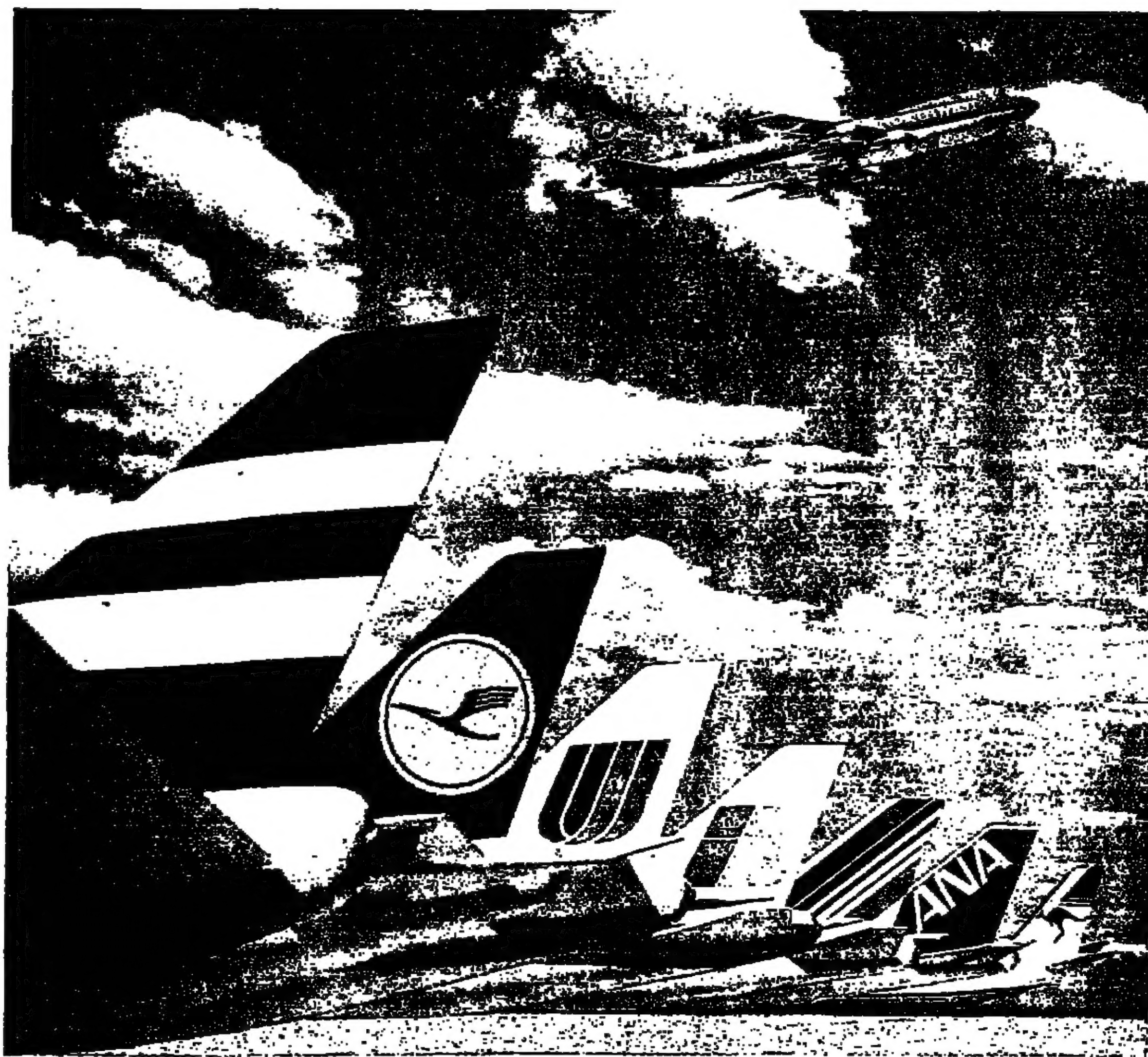
More pressure on banks and individuals who benefited from transactions with Mr Robert Maxwell in the last months before his death is set to increase as the cross-party social security committee decides tomorrow who it wants to give evidence next year.

## CBI urges watchdog

The Confederation for British Industry is calling for a single regulator to supervise occupational pension schemes, in its response to the government's Pension Law Review Committee chaired by Professor Roy Goode.

In a report to be published today, the CBI says that the key to the future security of occupational pension schemes

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## PULP AND PAPER

Monday December 14 1992

THE PULP and paper industry is going through the shredder. Last year it presumed that prices had plummeted the bottom. It was mistaken. The downturn has been deeper and more prolonged than expected. For most groups, margins, prices and profits are still spiralling downward.

The main challenge facing the sector is not lack of demand. For most grades that continues to rise. The affliction besetting the industry is self-inflicted - overcapacity. The question is whether this is a normal part of the paper cycle, or a fundamental structural change.

The immediate cause of the overcapacity is all too familiar, says Dr Jan Remröd, director general of the Swedish pulp and paper association. "The good years of the late 1980s stimulated over-investment."

With supply outstripping demand, operating rates have fallen sharply, and with them prices, margins and profits. For some grades of paper, prices have fallen by as much as 40 per cent over the past two years.

The collapse in profitability has been global. Sweden's forestry companies expect to make a collective loss this year of SEK2bn (£180m), compared with a profit only two years ago of SEK12bn.

In the US, earnings at International Paper, the world's largest paper company, fell during the second and third quarters this year. Meanwhile, in Japan, Jujo, the third-ranking company, and Sanyo-Kokusaku, fifth-ranked, reported sharp profit falls of 40 per cent and 68 per cent respectively for the last financial year.

The plight of paper groups has been aggravated this year by turmoil in the currency markets. European commodity manufacturers suffered particularly from the depreciation of the dollar. Canadian and US manufacturers, faced with poor domestic demand, took advantage of the dollar's weakness to boost imports into Europe, intensifying problems there.

"Many European producers have been hurt as much by the dollar as overcapacity," says Mr Stephen Zinser, managing

director of European paper and packaging at Chase Manhattan Bank.

Scandinavian groups have particularly suffered from fluctuating currencies. The decision to float the Finnish markka last September gave a significant push for paper groups there, but placed the Swedes at a meaningful disadvantage. There was near panic among Swedish producers until the Swedish krona was also devalued in November.

The benefits of devaluation were initially considerable. "It was manna from heaven. It added 10 per cent to 15 per cent to turnover overnight," says Mr Zinser at Chase Manhattan.

He explains that hardly any of the Scandinavians' costs - mostly energy and wood - are dollar-denominated, so little currency-related inflation is imported. Meanwhile, revenues from Swedish-based plants increased immediately, both through currency translation and added volume through more attractive pricing.

However, in the medium-term, the benefits are less clear. As exchange-rate benefits work their way through, customers expect some to be passed on to them, driving prices down even further for the rest of the industry, says Mr Denis Christie, paper and pulp analyst at James Capel. In addition, the acquisition binge by Finnish and Swedish groups on the continent, during the late 1980s, has meant devaluations benefit them less than before.

Falling prices and the cost of expansion during the late 1980s - both of capacity and acquisitions - have left their mark on paper companies' balance sheets. With a few exceptions, such as KNP of the Netherlands and Arjo Wiggins Appleton, the Franco-British group, paper companies' balance sheets are over-stretched.

"Many groups in Scandinavia have debts greater than their turnover," admits Mr Timo Törke, senior vice-president of market research and planning at Finnecell, the Finnish pulp marketing organisation. Mr Thomas Nysten, managing director of the Finnish paper marketing body Finn-



## A self-inflicted wound

The collapse in profitability has been global, as recession and overcapacity cloud the industries, writes Paul Abrahams

pap, says Finnish groups are in more serious financial difficulties than those in other countries, because their capital structures are weaker.

Most are now looking to cut their environmental capital spending. The Swedish pulp and paper association reckons Swedish companies have spent SEK30bn on the environment since 1987. "We are in a position to slow down our environmental expenditure - and that just suits us fine at the moment," says Mr Bo Berggren, chief executive of Stora, Europe's largest paper group.

Other costs are also under attack. In the UK, four plants have been closed and 1,200 jobs

lost during the last 12 months, according to the UK-based Pulp and Paper Information Centre. Meanwhile, Scandinavian and north American groups have launched fierce cost-cutting exercises, including job losses, which Dutch and German companies have so far been unable to emulate.

Dr Remröd, at the Swedish pulp and paper association, estimates that the Swedish industry has cut its workforce by 30 per cent - some 200,000 employees - in the past three years. Stora, Europe's largest paper group, has reduced the number of its employees from 45,000 to 39,000, and says more job losses are on the way. Mr

Bernt Löf, chief executive of MoDo, the Swedish paper group, laments: "We are closing mills that in three to five years time would be competitive."

However, it is far from clear whether such cost-cutting will be enough to let Nordic producers compete in the long-term with low-cost manufacturers in South America and Asia. Higher wages, transport and energy costs and the simple problem that trees in Scandinavian countries only grow 100 days a year, compared with 365 in Brazil, all work to the Scandinavians' disadvantage.

The flight by European companies from pulp and commod-

ity grades to added-value papers has not been altogether successful. The rush into a number of fast-growing niche markets, such as coated wood-free, has merely shifted overcapacity down the product chain.

Shortage of cash has brought the heavy acquisition activity of the late 1980s to an almost complete standstill. The only significant exceptions during the last 12 months included the DM400m (£165m) purchase in May of 90 per cent of Hammer Paper, one of Germany's leading producers of coated wood-free paper, by Sappi, the South African pulp and paper company. International Paper also acquired an 80 per cent stake

in Kwidzyn Pulp and Paper Company, Poland's largest paper group, for \$120m.

In spite of the paucity of acquisition activity, a consolidation process is inevitable, according to Mr Sverker Martin-Löf, chief executive of SCA. He says weak balance sheets will force groups together to allow them to cut costs. The most likely route for the present is through mergers rather than acquisitions.

"Given the premium needed to purchase paper companies at the moment, it's nearly impossible to put together any acquisition of substantial size," says Mr Michael Bottenheim, a managing director at Lazards, the merchant bankers.

In Japan, Jujo Paper and Sanyo-Kokusaku Pulp, two leading Japanese paper producers led the way in July when they merged to create the country's largest papermaker. And last month the Dutch groups, KNP, VBG and Bührmann-Tetterode, announced their intention to create Europe's second-largest paper and packaging group. Further mergers in Scandinavia are likely in the coming years.

The main banking requirements will be for debt refinancing. Many companies need to refinance next year, but will have to renegotiate on the basis of poor 1992 results. Refunding will unhappily coincide with the bottom of the cycle. It is a brave bank at the moment that wants to increase its investment in the paper industry.

Nordic groups are faced with the steepest refinancing challenge. Given the reluctance of international banks to finance paper groups, they would normally fall back on their domestic counterparts. But the Scandinavian banking system is in crisis.

Many paper companies are now looking at project finance which can be carried off-balance sheet. An alternative would be to try to access other European equity markets. If only paper companies can convince investors of their longer-term prospects.

The outlook for the industry is so uncertain that most groups have stopped offering

## IN THIS SURVEY

## The cycles get longer and deeper

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## West European production of paper and board: 1983-91

	Total	Change	%
	m tons*	m tons	in tons
1983	44.2		
1984	46.4	4.2	9.6
1985	48.6	0.2	0.5
1986	50.4	1.8	3.6
1987	53.3	2.9	5.7
1988	57.2	4.0	7.6
1989	59.4	2.1	3.6
1990	61.5	2.1	3.5
1991	62.1	0.6	0.9

\*Rounded figures Source: CAPP

prophesies. Most executives have been repeatedly guilty of wishful thinking. Mr Berggren, at Stora, says: "We have been wrong so many times, we have given up trying to predict. But there are no signs of improvement."

Mr Martin-Löf, at SCA, believes this downturn is longer and deeper than others. The overcapacity, in some grades, could last until the late 1990s, he says.

Nearly every paper company reckons it will become a money making machine - just as soon as the recovery comes. The problem is that nobody knows when the recovery will arrive.

## Can you boost production and use up less raw material?

In the United States each ton of recycled paper saves an estimated seventeen trees, 20,000 liters of water and over 1,000 liters of oil. And because the paper isn't discarded - three cubic meters of unrequired landfill space. U.S. papermakers are committed to reusing 40%

of all scrap paper by 1995 and demanding a 66% recovery rate for old corrugated containers.

That's why Inland Container Corporation, a leading producer of 100% recycled linerboard, recently commissioned ABB Process Automation to deliver a single integrated system to control the mill's entire production line at its Ontario, California paper mill. From pulping operations to paper production, ABB is helping Inland produce consistently high quality products at a lower overall cost, while setting the standard for environmentally sound paper production.

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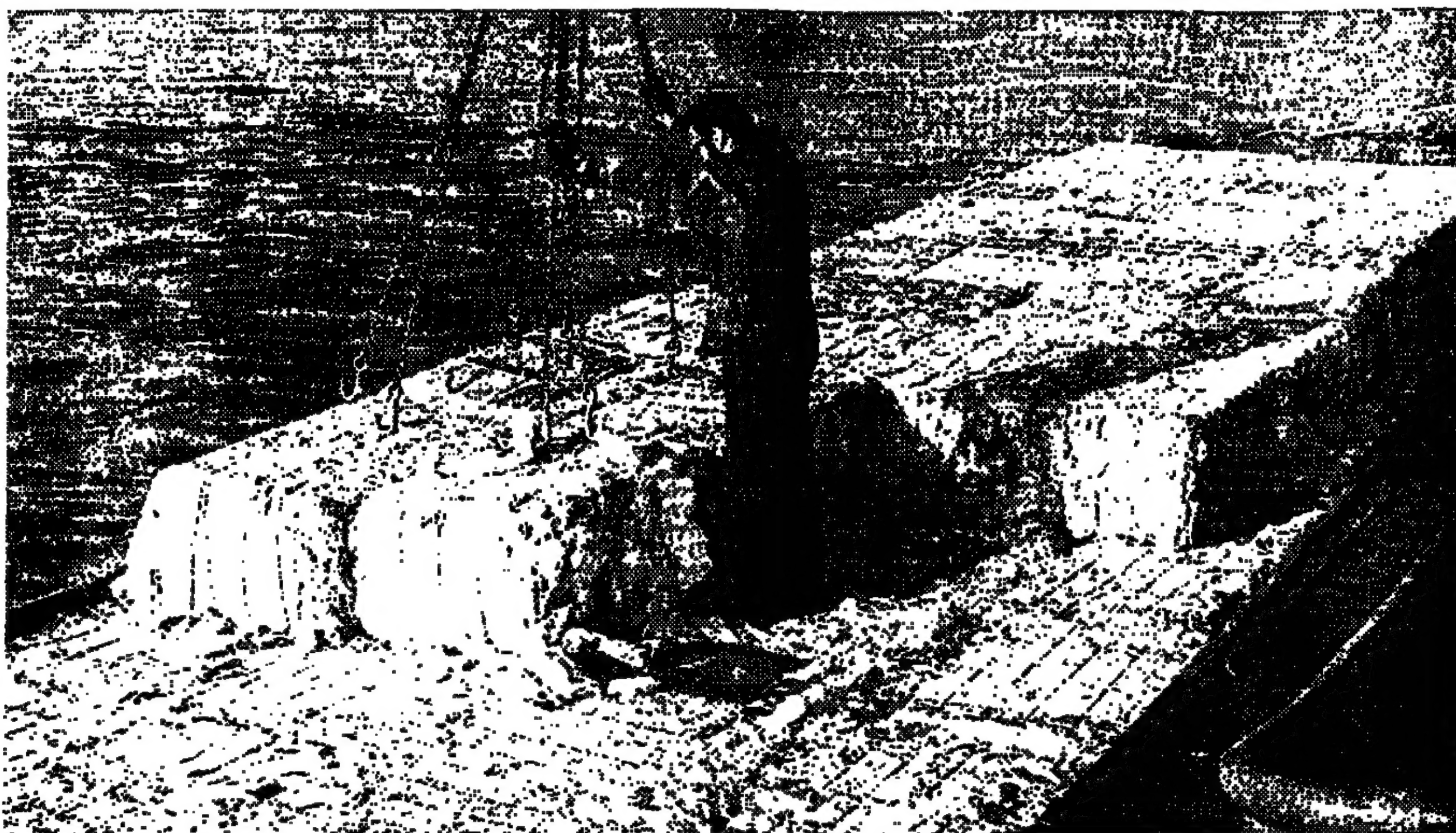
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The amount of waste paper recovered and re-used continues to rise steeply

## The industry and the environment

## The green conundrum

THE "green" challenge facing the pulp and paper industry is not just creating demands for cleaner higher-quality products, but it is also beginning to disrupt many of the previously-accepted economic patterns in the industry.

As a result of the more widespread use of waste papers throughout the developed world, the industry's centre of gravity is slowly shifting from the virgin forests of the Nordic countries and Canada towards the more highly populated "urban forests" of central Europe and the US.

There is a limit to this process, because the recycling loop can never be entirely closed: there will always be a need for the input of fresh virgin pulps to strengthen the fibre content of paper products. But the trend is clear and unmistakable.

According to a recent Financial Times Management Report, the amount of waste paper recovered and re-used to produce more paper rose from 60m tonnes in 1985 to almost 84m tonnes by 1990. It is forecast to climb to 150m tonnes by the end of the decade.

Its growing utilisation has begun to change the entire economics of paper production in many countries, as manufacturers find it more cost-effective to build new plants near the centres of waste paper supply. The UK is a prime example.

Throughout the 1960s and 1970s, the strength of the British paper industry was sapped by labour unrest, high production costs and the awkward pressures caused by its dependence on pulp imports bought directly from rival Scandinavian companies, which produced both raw pulp and finished paper products.

But the indigenous UK manufacturing industry was largely "saved" by switching to the use of cheap raw materials,

in the form of newspapers collected from the UK's centres of population. The industry's utilisation rate (defined as the amount of waste paper re-used in production) now stands at 60 per cent - one of the highest in Europe - although its economics have recently been threatened, as a result of the falling European prices for waste paper caused by a glut of supply stemming from mandatory recycling schemes in Germany. The paper industry in Germany is now in the process of building four paper mills to soak up this excess supply, further emphasising the shift towards locating plants near their end markets.

But in spite of the economic attractions, the simple environmental equation that all recycling is necessarily good has exasperated the industry. In many respects, the paper producers argue that this simple truism is not, in fact, true and that the energy and environmental costs of additional paper recycling do not add up in some circumstances.

The industry suggests that paper is, anyway, an infinitely renewable and benign resource if properly managed. What is the difference between harvesting properly-cultivated trees and corn or wheat - other than a vast divergence in growing times, they ask?

According to industry estimates, 94 per cent of the wood used by European paper and board producers comes from sustainable managed forests, with the other 6 per cent coming from North America and the countries of the former Soviet Union. For a long time, more trees have been planted in Europe than have been felled each year.

However, despite the industry's best efforts, environmental campaigners still find much to protest about in forestry and paper manufacturing practices



Environmentally-responsible forestry, in Finland

around the world. The environmental damage caused by "clear-cut" fellings, when whole forests are harvested at one time, has alarmed many environmentalists, although the industry is trying to limit this practice and argues that the damage is only temporary.

Campaigners also worry when conifer and eucalyptus forests are planted without due regard for their impact on local fauna and flora. Such unnatural forests can cause ecological "mono-cultures", destroying the diversity of species that are normally found in varied forests.

Environmentalists also highlight the level of effluents produced at some pulp and paper

mills - although, again, the industry, prompted in many cases by government legislation, has gone far to clean up its act.

Attention has also focused on the level of harmful dioxins created by chlorine-bleaching of pulp, a process which is used to brighten paper products. These toxic dioxins are caused by the chlorine reacting with the lignin in the wood. Although the level of dioxins in paper is minute (less than 8.2 parts per trillion) and there is scant evidence to suggest that people have been harmed by handling their products, the issue became something of a cause célèbre in the late 1980s as a result of a rash of wild fears about dioxin poisoning from chlorine-bleached nappies.

As a result of the public outcry, companies have generally stopped using chlorine-bleached paper for nappies, and are reducing its use elsewhere while investigating alternative bleaching agents.

Many companies have made a virtue of this necessity by marketing their paper products as "green", and some have even cheekily added a price premium for the supposed environmental benefit.

The packaging of paper products has also become the subject of environmental and marketing scrutiny. Arjo Wiggins Appleton, the Franco-British paper group, for example, has reported sales successes of its carbonless papers in Germany, as a result of wrapping them in an innovative new packaging system made from layers of recycled paper.

Such economic impulses, combined with the emotional connotations associated with the environment, will ensure that green issues remain at the forefront of the paper industry's concerns for the foreseeable future.

Yet some fear that environmental initiatives can sometimes act as an impediment to trade, concealing protectionist impulses. The "green card" may well be played to defend western European markets from "dirty" exports from cheap manufacturers in eastern Europe, they suggest.

It is clear that those companies that can, and do, ride the environmental tide will prosper; those that ignore it will surely suffer.

John Thornhill

## Longer and deeper cycles

THE MAIN challenge facing the world's pulp industry is a familiar one - a massive imbalance of supply and demand. But there is no obvious remedy for the sector's dire operating rates, prices and profitability.

The predicament is all the more grim because, for a brief moment at the beginning of the year, it thought the market had turned the corner.

At that stage, prices for northern softwood had tumbled from a peak in 1989 of \$840 a tonne to as low as \$460. The industry reckoned that \$460 was the bottom, and during the first quarter of this year started to push through price increases.

At first, pulp producers' optimism seemed justified. During the first six months, prices headed upwards, with list prices even reaching \$600 a tonne, although there was still considerable discounting. World shipments in Europe to the end of July increased by 12 per cent, compared with last year's admittedly depressed volumes, says Mr Roger Wright, of Hawkins Wright, the marketing and research consultants.

But then the market turned. "Over the last few months, the psychology has reversed," says Mr Stephen Zinser, managing director of European paper and packaging at Chase Manhattan Bank. "Customers built up inventories in anticipation of a strike in British Columbia. That proved shorter than expected, and prices started heading down."

"The recovery was artificial - an illusion," says Mr Wright. "All that happened was that inventories moved from producers to users, who thought prices were going to move upwards. Paper consumption remained depressed, leaving customers with higher stocks. Naturally they cut back on pulp orders."

One observer says it would not be an exaggeration to say that prices are now in free-fall, with list-prices for northern softwood at about \$560, but discounted transaction prices at as little as \$450. Payment terms are also becoming more generous.

Prices in real terms are lower than ever before, admits Mr Timo Teräs, senior vice-president of market research and planning at Finnccell, the Finnish pulp marketing organisation.

The question facing the industry is whether this is part of a normal cycle, linked to the slow-down in the growth of the world economy, or whether

something more structural is occurring.

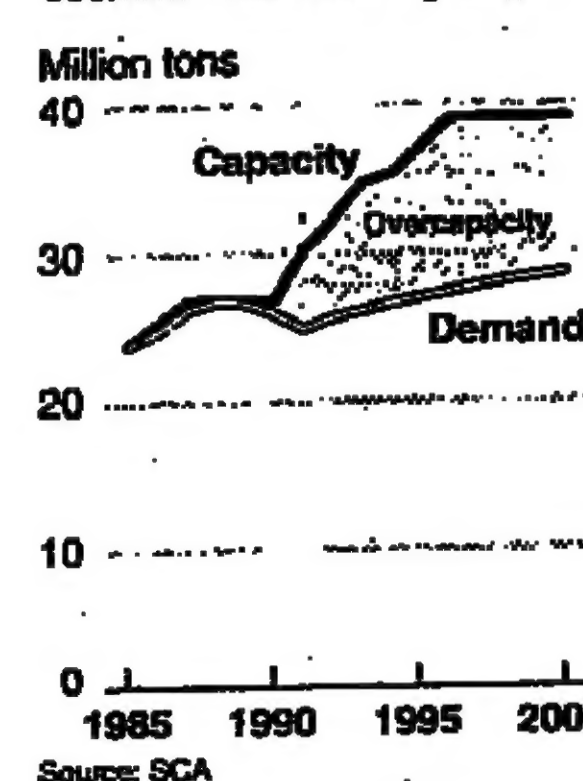
Certainly, the pulp industry's cycles appear to be getting longer and deeper, according to Mr Sverker Martin-Löf, chief executive of the Swedish group SCA.

The structural problems are not hard to identify. The most significant is massive overcapacity. World supply is 34.8m tonnes, a 6 per cent increase on 1991. But world demand is only about 29.5m tonnes, and growing more slowly - up 3 per cent on last year.

On the demand side, virgin pulp is facing increasing competition from recycled fibre, whose growth has been pushed by environmental legislation, particularly in the US and Germany. "The fastest-growing forests [waste paper awaiting collection] are in the cities of Europe," admits Dr Jan Remröd, director general of the Swedish pulp and paper association.

The plight of some grades is worse than others. For

## White market pulp



Source: SCA

be cut after 30 years. That compares with a period in Scandinavia of 80 to 100 years, because of the limited short growing season during the short summers of northern climes.

Mr David Walker, vice-president of corporate analysis at Jaakko Poyry Oy, the paper and pulp consultants, estimates that wood costs in Chile are a third of those in Scandinavia.

**The most significant problem is massive overcapacity. World supply is 34.8m tonnes, a 6 per cent increase on 1991. But world demand is only about 29.5m tonnes, and growing more slowly - up 3 per cent on last year**

northern softwood pulp, the position is far worse, because it is losing market share to southern softwood: annual capacity is at 9.3m tonnes, while demand is almost static at 7.7m tonnes, according to Mr Wright.

The industry's difficulties have also been exacerbated by increased integration over the past few years. European groups have added paper machines to their pulp plants, reducing the size of the traded pulp market, says Mr Teräs, at Finnccell. That has led to exaggerated swings in prices.

On the supply side, the imbalance is partly caused by manufacturers starting construction of new capacity simultaneously during the late 1980s. But a structural shift of the economics of pulp production, between the northern and southern hemispheres, is also taking place.

"The major threat to us is from countries like Chile and Brazil," says Mr Berni Löf, chief executive of MoDo, the Swedish group.

He explains that a eucalyptus plantation in Brazil can be harvested in only eight years, while pine in Chile can

In addition, the cost of transporting wood in Scandinavia is higher, because a greater surface area is needed to supply the pulp mills, says Mr Löf, at MoDo. Harvesting costs are also less, because of lower wages in South America.

The build-up of South American production has been rapid and substantial. In Brazil, Aracruz has just completed a \$1.2bn expansion programme, including a new 525,000-tonne a year line at its plant in Espírito Santo, north of Rio de Janeiro. In addition, Bahia Sul has started production at a plant. Eventual yearly production will exceed 400,000 tonnes, but a 250,000 tonnes a year paper plant should start next year. Chile has added capacity of 1m tonnes a year over the last 18 months, three-quarters of which is pine-based with the balance provided by eucalyptus.

With supply outstripping demand and prices still poor, operating rates remain terrible, says Mr Wright. Manufacturers, whose inventories are building up, are likely to close plants for maintenance for extended

periods, he reckons.

Most pulp producers are busy cutting costs. MoDo, for example, is believed to have saved about SKr1bn (£96.7m) over the last three years through cost-cutting. Mr Löf says a further SKr1bn will be saved next year and another SKr300m could follow, but after that he'll start praying.

Finnish groups have also been cutting their cost-base. A combination of the devaluation of the markka and reduction in labour and energy costs have helped to some extent, says Mr Teräs, at Finnccell. "We need every margin possible," he adds.

Mr Jan Remröd, director general of the Swedish pulp and paper association, points out that Scandinavian costs are falling as those of South American producers start to rise.

But in spite of cost-cutting, a structural imbalance remains. There is little sign of an upturn in the world economy to allow demand to catch supply. The economies of Germany and most of the rest of Europe appear to be slowing, as is that of Japan. The US may be beginning to pick up, but the growth in market pulp there is limited because so much production is integrated into paper production.

The most obvious way to solve the crisis would be to close capacity. Mr Löf, at MoDo, points the finger at Canadian producers. "Their pulp mills are small and old. It will cost a fortune to improve their environmental performance. They are obvious candidates for closure." Nevertheless, the barriers to exit are formidable.

The Scandinavians' position may be less precarious. The Swedes have slashed costs, while investing heavily in new plant to produce the totally chlorine-free pulp now increasingly demanded by German, Austrian and Swiss consumers.

Mr Wright says that, although Nordic wood costs are still more than 80 per cent higher than in the US and Chile, they should continue to fall through the 1990s as more softwood resources reach maturity.

Finnish companies are also making efforts to become more cost-competitive.

Whether such measures are enough to secure the long-term future of northern hemisphere manufacturers remains to be seen.

Paul Abrahams

## Merchanting and added-value papers

## Leaving the roller-coaster

THE ROLLER-coaster ride of the paper industry, from outstanding profits to numbing losses, may be exhilarating, but it is a far from comfortable. Pulp and most grades of paper represent classic examples of cyclical industries. And they are becoming more and more classical as each downturn of the cycle appears to become increasingly deep and long.

One reason is the growing size of paper machines. A world-scale competitive paper plant now has a capacity of at least 200,000 tonnes a year, and sometimes more than 300,000 tonnes, explains Mr Denis Christie, paper, pulp and packaging analyst at James Capel.

Each time a new plant comes on-stream it adds a significant chunk to regional capacity. Most paper groups demonstrate lemming-like behaviour when the economic cycle is at its peak. Unwilling to lose market share, they invest in these new increasingly large plants simultaneously, aggravating the subsequent imbalance of supply and demand.

Not surprisingly, the more enlightened paper groups have attempted to get off the roller-coaster by diversifying into less cyclical paper businesses. These range from packaging to specialist papers and even merchanting.

The Swedes have for some time been masters of adding value to paper. Mr Sverker Martin-Löf, chief executive of SCA of Sweden, explains that Swedish groups' home market is so small that they have to export, and these exports have to be products that can stand long distribution and can be differentiated.

That excludes commodity products, such as pulp and newsprint. Mr Martin-Löf says Sweden cannot compete in the long-term in commodity products, because of the high costs of production there. The group has integrated its pulp production into paper products, to the extent that it is now a net buyer of pulp.

SCA has spread its risk over the past 10 years by diversifying into hygiene and packaging products. Mr Martin-Löf proudly points out that the baby-nappy and feminine-protection markets have been almost unaffected by the recession, growing at up to 5 per cent this year. Similarly, the packaging market - for which SCA provides high-value coated paper - has expanded at 1.5 per cent to 2 per cent.

To provide its packaging and hygiene products to its customers, it has had to move produc-

tion to the continent, says Mr Martin-Löf. "We can't sit and die in Sweden," he says.

Dr Jan Remröd, director general of the Swedish pulp and paper association, explains that, traditionally, the industry has been based in the forest. Now it has to look at the consumer. "The Swedish government may not like it, but any further investment in the medium-term is unlikely to be in Sweden."

Mr Bo Berggren, chief executive of Stora, Europe's largest paper group, says there is a clear trend that the industry is becoming less global, because market demands are becoming more specific. Customers want quality and just-in-time deliveries. That means moving to the continent.

"We have been in the vanguard of added-value," Mr Berggren proclaims. "We are unrecognisable from the mid-1980s." Stora has been moving further and further from the pulp market. It used to sell up to 600,000 tonnes a year, but it is now in a balanced position. Instead, the group has moved into printing and writing papers as well as

board for food packaging. The example of the Swedes is now being followed by the Dutch. The recent announcement by KNP, VEB and Bühmann-Tetterode that they intended to merge was driven by the desire to reduce their dependence upon pure paper markets.

Mr Robert van Oordt, chairman of Bühmann-Tetterode, explains: "Because new paper machines have to be so large and can therefore distort the market so easily, the risk of making a

misjudgment is enormous. By having other activities, we reduce the risk for the group of introducing new machines." The combined group will have only Fl 2bn (\$44m) of its Fl 13bn turnover in direct paper products. The counterweights, as Mr van Oordt calls them, include packaging, graphic systems, office equipment and paper merchanting.

However, the attempts to escape cyclical commodity paper markets have not always been entirely successful, explains Mr David Walker, vice-president of corporate analysis at Jaakko Poyry, the Finnish consultants. Paper companies have an unfortunate hereditary instinct, which means that, once one group has identified a fast-growing niche area, most of the rest plough in, leading to massive overcapacity and commodity-style prices. "To be frank," says Mr Berggren, at Stora, "overcapacity is affecting most grades at the moment."

Mr Walker points out that a number of companies moved into the uncoated super-calendered (SC)

magazine market with mixed results. Repola has 800,000 tonnes annual capacity, Myllykoski 540,000 tonnes, Stora 475,000 tonnes and SCA 330,000 tonnes.

Yet according to David Christie, analyst at James Capel, the outlook for SC magazine papers is probably the bleakest of all paper types, because capacity is expected to rise sharply over the next 18 months with the start-up of two machines, one of Repola's and one of Norske Skog, with a combined annual capacity of 560,000 tonnes. Naturally, operating rates, prices and margins, are all poor.

Similarly, coated woodfree and carbonless are both areas with high-technology content and added value; but both are afflicted by overcapacity, says Mr Alain Soulas, newly appointed chief executive at Arjo Wiggins Appleton, the Franco-British paper group.

Prices of coated woodfree have fallen by about 23 per cent since 1989, in spite of the market growing as much as 12 per cent a year.

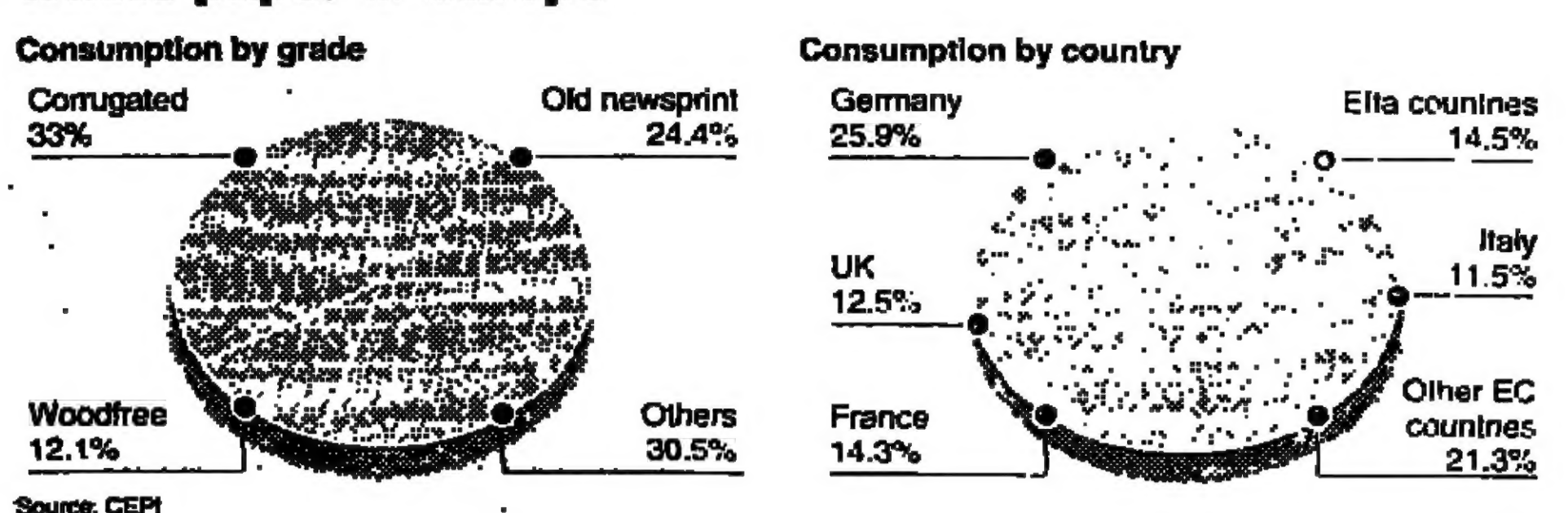
Mr Soulas believes the most important way of protecting investments from this sort of hereditary instinct is to brand products. He points to the group's Idem brand, which has allowed it to keep 30 per cent of the market and partially resist pricing pressure. He believes that achievement is outstanding.

AWA's Conqueror writing-paper brand has actually increased both sales and prices over the last 12 months, he says. Other successful niches include playing-cards, banknotes, medical papers and labels.

AWA is also Europe's largest existing merchanting company, although it may be challenged for that title by the new Dutch grouping. Mr Soulas believes about half of AWA's turnover in Europe has not been affected by the downturn.

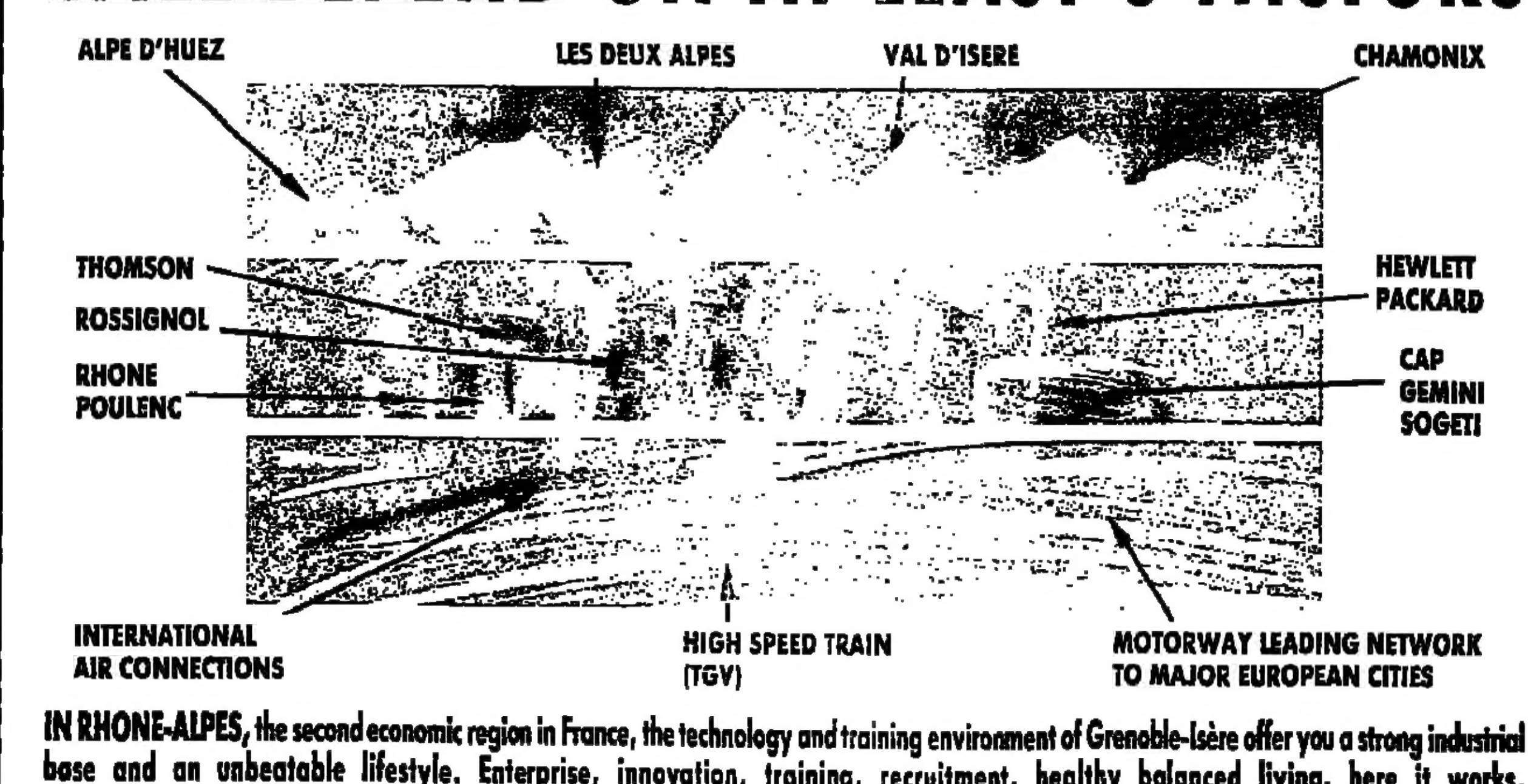
Paul Abrahams

## Waste paper in Europe



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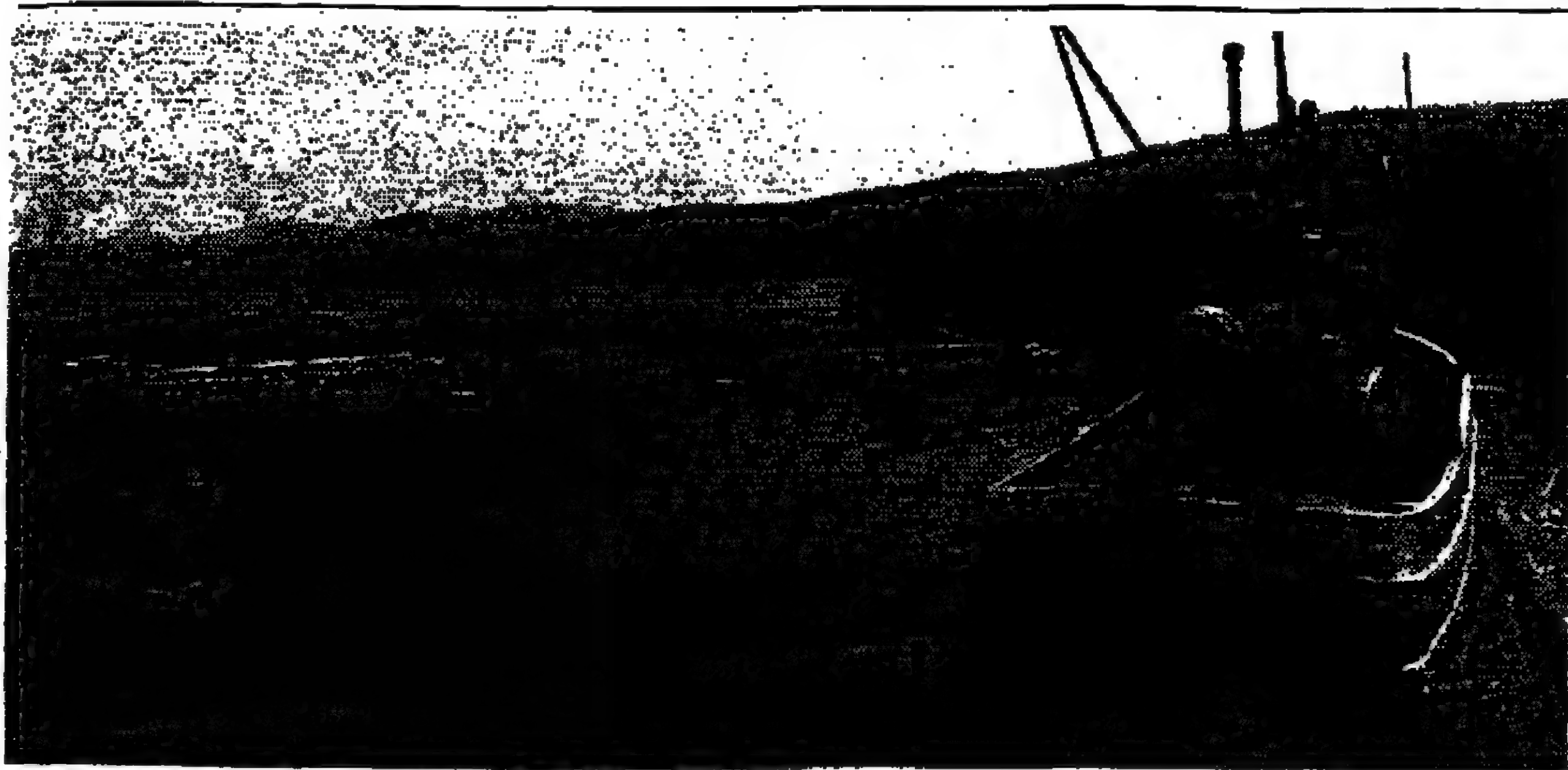


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HERE IT WORKS





British Columbia believes the economic log-jam may be broken next year

## Regional report: North America

## The worst may be over

THE BEST that can be said for the North American pulp and paper industry is that signs are emerging of a patchy recovery. But the emphasis is patchy. Price discounting and spare capacity are still prevalent in many sectors. International Paper, the biggest US producer, reported a 7 per cent drop in third-quarter earnings with the comment that prices for uncoated papers remain under pressure.

Georgia-Pacific, which suffered a third-quarter loss, noted that much of the industry is still burdened by high inventories and excess capacity. In mid-November, Mr. Sherman Chao, analyst at Merrill Lynch in New York, cut his 1993 earnings estimates for seven US forestry groups on evidence that weakening Scandinavian currencies and the strong US dollar are intensifying competition from European pulp.

"The burden of world overcapacity will be borne more by the US industry," Mr. Chao says, adding that soft pulp prices could ripple through to weak prices for a wide range of papers.

Nonetheless, there are signs that the worst of the recession is over. Although Mr. Chao has cut his 1993 earnings estimates, the revised figures still represent an improvement on this year's expected performance. Another analyst, Mr. Chip Dillon, of Salomon Brothers, predicted in a recent report that prices of lumber, linerboard, pulp, newsprint, uncoated and coated papers, and tissue should all recover during 1993, although in some cases, the upturn will be shallow.

Producers of lightweight coated papers lifted prices by 4 per cent on October 1, and east-coast newsprint producers succeeded in pushing through a 5 per cent price increase (or, to be more precise, a 5 per cent

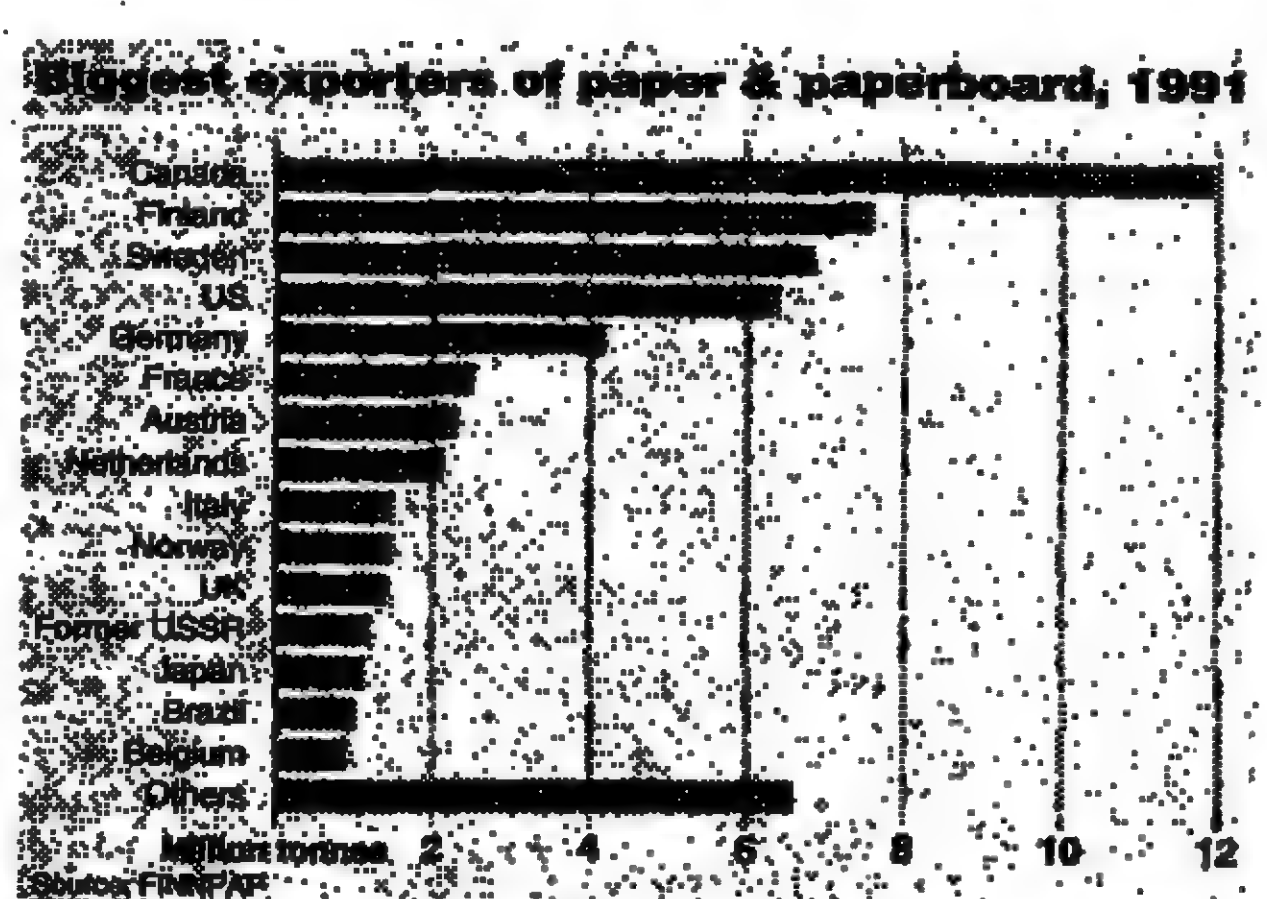
cut in list-price discounts) on August 1. An official at Abitibi-Price, the Toronto-based newsprint-maker, says that "demand has been a little more sustained than we originally thought." Abitibi has cancelled much of the downtime which it planned for its newsprint machines in the second half of this year.

Canadian pulp and paper makers, whose high costs have made them the heaviest casualties of the recession, are also benefiting from a 15 per cent tumble in the Canadian dollar against the US currency over the past year. British Columbia's Council of Forest Industries predicts that Canadian west-coast producers could, on aggregate, break even or show a small profit in 1993 after combined losses of almost \$300m in 1991 and an estimated \$240-500m this year.

The cautiously upbeat mood is based on hopes of a recovery in the US economy from 1992, and on the painful restructuring which has taken place within the North American pulp and paper industry over the past three years. The optimists' argument runs that, as a sector which is traditionally sensitive to the business cycle, the paper industry could be among the early winners of any economic stimulus administered by the new Clinton administration in Washington.

Industry operating rates already exceed levels normally seen at the start of an economic upswing. Linerboard mills, which produce the inner and outer layers of a corrugated cardboard box, are operating at almost full capacity, and are expected to push through a price increase before the end of the winter.

Furthermore, little new capacity is likely to come on-stream in the early stages of the recovery. According to Mr. Dillon, of Salomon Brothers,



the American Paper Institute's (API) forecast of new capacity, due to be published later this month, will point to an annual increase of only 1.3-1.4 per cent. This compares with the API's earlier forecasts of 1.8 per cent annual expansion between 1991 and 1994, and an average of 2.8 per cent in the three decades to 1990.

A recovery will be especially welcome to the newsprint industry, which has seen some of the most wrenching changes of the past few years. Customers have become more demanding, with the range of products expanding to include soft-calendered, high-gloss and coloured newsprint, as well as a growing quantity of paper made from recycled pulp.

According to the API, some 52 per cent of all newsprint is now recovered for recycling in the US, up from 35 per cent in 1988. More than half of all corrugated material is also recovered.

Pierce competition has put especially heavy pressure on Canadian newsprint producers, whose capacity shrank from a peak of 10.3m tonnes last year to 9.8m tonnes in September. With the rising demand for recycled newsprint, Canadian

mills have been handicapped by their distance from the main urban centres. The Canadian industry has also paid the price of a high cost structure. Several old, inefficient machines, mostly in eastern Canada, have been closed down.

According to the Canadian Pulp and Paper Association, shipments to the US tumbled to 4.2m tonnes in the first nine months of 1992, from 4.8m tonnes in the same period of 1990.

Meanwhile, US suppliers' share of their home market has climbed from 4.1m tonnes to 4.7m tonnes, but the US newsprint market itself has become more fragmented. California's ailing economy and sagging demand in Japan have opened a gap of about \$35 a tonne between east- and west-coast newsprint prices.

At least one big California newspaper publisher is understood to have told suppliers that it is unable to accept any discount reduction for the time being. By contrast, east coast producers' thoughts are already turning to another price increase next spring.

Bernard Simon

## Profile: Jamont the pan-European consumer paper products group

## Supplier to the supermarkets

RONALD SINGER says he would rather Jamont were not described as a paper company - which sounds strange from the chief executive of Europe's second largest manufacturer of tissue.

But Mr. Singer was the man entrusted, three years ago, with forging Jamont out of a diverse collection of 14 paper-product manufacturers scattered across Europe. People listen to what he has to say about Jamont's corporate identity.

"I consider us a consumer-products company," explains "We make the kind of products that are sold in a supermarket."

That means tissue, of all sorts, which represents 75 per cent of the group's business, but also cotton products, feminine hygiene products and paper plates. In the European market, only Scott of the US is bigger, with an 18 per cent share, against Jamont's 14 per cent.

More important for Mr. Singer, an American, Jamont is a genuinely pan-European group. It is a Dutch holding company, with its headquarters in Brussels (to take advantage of Belgium's generous tax-breaks for multinational headquarters), and subsidiaries manufacturing in 11 countries, both inside and outside the EC. Almost inevitably, the group does all its accounting in the European currency unit, the ecu.

Mr. Singer believes that annual turnover of Ecu1.2bn (\$970m) to Ecu1.3bn is impressive in any currency, and although he declines to reveal any more figures, he says the group is "substantially profitable". If market conditions are right, then a stock market flotation may be considered as early as 1994.

All this has happened in less than three years. Descendant of a joint venture between



Ronald Singer has three important target areas

James River Corporation, the US paper group, and Ferruzzi of Italy, Jamont was formed when the two original shareholders and Nokia of Finland decided to pour their paper businesses into one company.

In January 1990, says Mr. Singer, "we had no legal existence, we had no employees, we had no bank account, we had nothing. We borrowed offices from shareholders and subsidiaries, and we began from zero to create a European entity."

From a manufacturing point of view, the Jamont companies were not an obvious candidate for "Europeanisation". There is little benefit in transporting low-density, low-value products like tissues or paper plates across long distances, so there was no need to amalgamate plants. Existing facilities, from Finland to Turkey, stayed put, manufacturing for distinct national markets.

Instead, Mr. Singer and his multinational staff concen-

trated on developing a central administration, which could handle strategy, improve productivity and secure financing for the "new" company.

In this last area, Jamont has moved fast. Last year, the group raised a Ecu400m syndicated loan as security for an aggressive investment programme. Some Ecu500m will be spent by the end of 1993.

The biggest benefit for the subsidiary manufacturers, Mr. Singer believes, has been the access to developing technology.

"None of the companies had been able to support a substantial technology effort on their own," he says. James River - which, together with Cragnoiti & Partners, the Italian investment group, still owns 86 per cent of Jamont - operates an open-door policy with the group on technology licensing. In its turn, Jamont is ploughing funds into developing technology for "de-inking" fibres, improving the quality of paper

produced, and enhancing the ability of machines to convert large paper rolls into more manageable small rolls. Mr. Singer claims that Jamont technicians are already bettering the work done in James River laboratories.

For the future, Jamont has three important target areas. Mr. Singer wants to fill in the gaps in the group's coverage of western Europe - in particular, Germany, which is dominated by the tissue company FWA, and where another rival, Kimberly-Clark of the US, is trying to expand.

Looking further ahead, the group sees possibilities in eastern Europe and - beyond 1994 - it may even start to expand into related areas of business outside the core tissue operations.

Much depends on economic developments. As head of a company that has built itself on firm European foundations, Mr. Singer has been profoundly disappointed by the unexpected turmoil in the European exchange rate mechanism. Now, he says, his staff have to spend valuable time worrying about European currency fluctuations, which he believed were a thing of the past.

In general, however, he says Jamont will continue to benefit from the stability of its underlying business: "Bad times for us means when markets are growing at 1 or 2 per cent, instead of 4 or 5 per cent."

That apart, Mr. Singer has one principal goal if he is to seek further funding or a stock market flotation: to convince backers that this Italo-American-Finnish-owned Dutch holding company with a Belgian headquarters is not a European corporate aberration, but the shape of things to come.

Andrew Hill

## Regional report: Scandinavia

## Weaker krona lifts Sweden

THE 19 per cent jump in the shares of Sweden's forestry companies the day after the country floated its currency last month said it all. Sweden's pulp and paper groups were competitive again, after a year in which a strong Swedish krona had seen them outflanked by rivals in North America and Finland.

A weaker currency may not be an instant fix for all the problems battering the highly-cyclical forestry industry - now very much in one of its down phases - but it certainly helps. Finland has boosted both export prices and volumes since devaluing the markka in November 1991, and it has gained a further benefit from floating its currency in September.

Indeed, the currency changes may help make 1993 a turning point for the forest companies of both Sweden and Finland. The two countries expect their pulp and paper sectors to make a loss this year, but are cautiously optimistic that 1993 will bring a return to profit. The benefits of rationalisation, a stronger dollar and an upturn in the US market will also be vital ingredients in any turnaround.

Prices remain, nevertheless, under strong pressure because of market overcapacity. Sweden and Finland also face special competitive difficulties. They have slower tree-growth rates, higher wood and labour costs, and a less favourable tax regime than some of their rivals.

In Sweden, forestry companies have had one of their worst years for a long time and are looking at a collective loss of SKr2bn (\$190m) for 1992. This compares with a SKr1bn profit last year and a SKr1.2bn profit in 1990. As a result of devaluation, and assuming unchanged prices, the industry association calculates that companies will be SKr5bn better off. The improvement would have been even greater if the UK, Italy and Spain had not also seen their currencies effectively devalued during the year.

MoDo, one of the three biggest Swedish forestry groups, estimates that it will gain SKr900m a year as a result of the weaker Swedish currency, though not until current hedging programmes have expired in the second quarter of next year. Devaluation is not, however,



A floating currency may help to turn the tide

the panacea it might have been 10 years ago, when exports by the Swedish companies from Sweden accounted for some 30 per cent of their turnover. Now much more of their capacity is based outside the country, and Stora, Europe's biggest paper and pulp group, exports only some 24 per cent of its turnover from Sweden. Finnish experience has shown, too, that buyers seek a cut from devaluation, putting further pressure on prices.

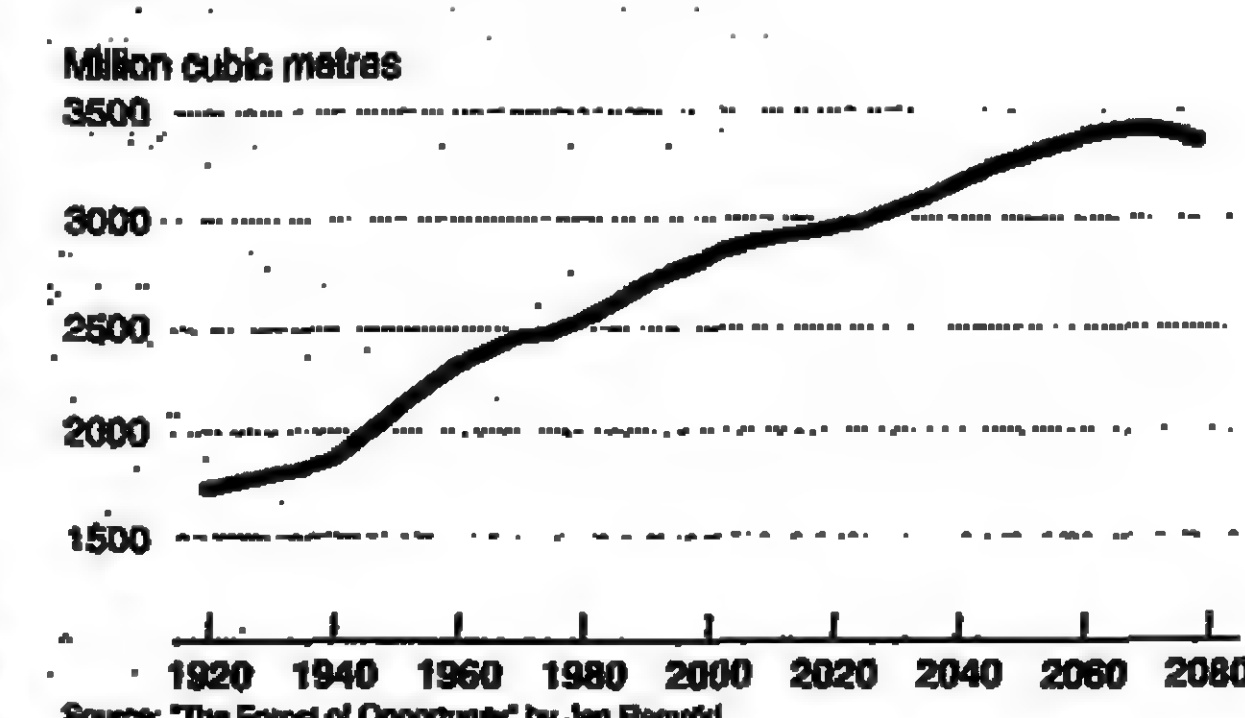
Swedish companies will certainly benefit from cost-cutting efforts put in place over the last two years. Stora alone has shed 6,000 jobs since 1990 and is looking to cut costs by a further SKr2bn over the next two years. Yet Mr. Jan Remrod, director general of the Swedish pulp and paper association, stresses that devaluation alone will not make the Swedish forestry industry competitive. Sweden still has the highest costs in the world, because of its wood and labour costs, high tax levels, and environmental ambitions.

Finland, too, still enjoys a competitive advantage over Sweden because the markka has effectively been devalued by 25 per cent over the last year, which is much more than the drop in the value of the krona.

The Forns also benefit from state-of-the-art technology and have been much more aggressive in cutting raw material costs. One estimate suggests that Finnish wood costs have fallen by up to 40 per cent over the last two years.

Finnish pulp and paper groups have not been able to take full advantage of their com-

## Swedish stock of timber



Source: "The Forest of Opportunity" by Jan Remrod

petitive position, however, because of the heavy debts accumulated as a result of big investment programmes in the late 1980s. Those with high levels of foreign debt have found their position exacerbated by the weakening of the markka.

Debt-servicing costs and foreign exchange losses help explain why the Central Association of Finnish Forest Industries expects the country's pulp and paper companies to post a total loss of FM3.5bn this year. This is despite a 6 per cent rise in export volumes and a 9 per cent increase in export value, to FM3.8bn, during 1992.

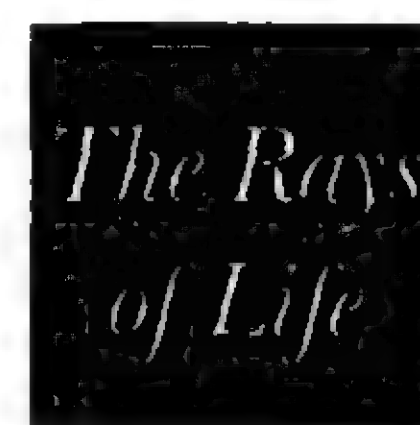
For the first eight months, the country's four leading forestry groups - Repola, Kymmene, Metsä-Serla and Enso-Gutzeit - were all in the red, notching up a combined loss of FM1.7bn (\$900m). For 1993, a modest collective profit of FM300m is predicted, but this assumes a 7 per cent rise in export volumes and a 12 per cent increase in value. The debt problem remains a

serious one, however. The large Finnish groups have been forced to reduce leverage through cutbacks in capital expenditure, as stock market conditions have not favoured equity raising. For both Finnish and Swedish producers, the most worrying question is how much further the European market will turn down, and how much further prices will come under pressure. The concern applies particularly to the German market.

"The first half of 1993 will be very difficult, because of flat or negative GDP growth in many of the large European markets," says Mr. Denis Christie, paper and packaging analyst at James Capel.

Against this, there is the expectation of a stronger dollar and a recovery in the US economy, which should reduce the level of North American exports to the European market and ease price pressures.

Christopher Brown-Humes



Life itself springs forth from the sun. Sinar Mas, as one of the leading business groups in Indonesia, appreciates the gifts of nature and is committed to responsible development and the preservation of the environment in order to improve the quality of life for the benefit of mankind.

The Group's agro-business activities help provide the most fundamental of all human needs - the need for food.

The Sinar Mas Group has roots in the vegetable oil business, having begun operations in this area more than 40 years ago.

Today, the Sinar Mas Group has modern refineries producing edible oils and fats required by domestic consumers and food industries. The Group also owns and develops over 160,000 hectares of plantations devoted to oil palm, tea, coconut, cocoa and bananas.

Through its vertically integrated structure, the Group has achieved significant market shares in agro-industry while adhering strictly to the national standards of health, safety and environmental protection.

From urban housing estates to luxury hotels, the Sinar Mas Group contributes to the essential human need for housing and shelter.

As one of the leading developers in Indonesia, Sinar Mas ensures its diverse real estate projects are developed in harmony with the surrounding environment. The Group's interests include commercial real estate and office buildings, residential subdivisions and condominiums, shopping centers, industrial estates and golf course developments.

With the source of its business and inspiration found in nature, the Sinar Mas Group is committed to responsible development through its environmentally sound policies and activities.

Just as the rays of the sun give life to nature, so Sinar Mas shares the benefits of its success.

## EDUCATION

As one of the leading exporters of pulp and quality paper to over 40 countries, and with its dominant share of the printing and writing paper market in Indonesia, Sinar Mas helps make learning possible.

Its subsidiaries, Tjawi Kimia and Indah Kiat provide a model for Indonesia and the world in waste management, including their exemplary waste water treatment facilities. The Group also makes extensive use of recyclable paper products and bagasse in its pulping operations.

The Group's activities in the pulp and paper industry adhere to strict environmental policies, including extensive reforestation projects, and maximum use of forest plantations.

QUALITY OF LIFE  
Sinar Mas works to enhance the quality of life with its wide range of financial services. Sinar Mas operates one of the most profitable local private banks in Indonesia, Bank Internasional Indonesia (BII), which actively supports programs such as the World Wildlife Fund's endeavor to save the Javanese Rhinoceros. Through its consumer marketing program, BII contributes to this project for every new credit card issued.

Sinar Mas has been selected to participate in the government sponsored program "Care '92", designed to educate the public on environmental issues, including pollution control and recycling. The Group's activities in this program include providing loans to small businesses for waste management projects, and the purchase of materials for recycling purposes.

With the source of its business and inspiration found in nature, the Sinar Mas Group is committed to responsible development through its environmentally sound policies and activities.

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## Regional report: the Far East

## Indonesia leads the drive for expansion

THE FAR East is becoming accustomed to being the exception to the rule. While Japan's economy has suffered from the global recession, many countries in Asia continue to grow at 5 to 10 per cent a year. This has led to a burgeoning demand for pulp and paper in the region, and the industry is set upon expansion.

A clutch of figures tells the story: Malaysia's paper industry is expected to average 27 per cent growth between 1991-1995; Thailand's paper demand in 1990 grew 19 per cent; Indonesia's paper capacity is expected to grow by over 30 per cent this year to 3.2m tonnes.

The far eastern picture, however, is not just one of growth, but of gradual change, the driving force of which will be Indonesia, the world's largest archipelago with over 13,000 islands and a 185m population. Indonesia's forests, estimated at 144m hectares, are second only in size to Brazil; and, with a per capita income of \$600 a year, the country is labour-

**One estimate is that only 5 per cent of Indonesia's forests, turned into plantations, could supply a third of the world's pulp demand**

competitive. Labour costs, which account for about 22 per cent of Indonesia's total pulp production costs, are one third of Thailand's and Malaysia's, and one tenth of Taiwan's.

However, a shortage of international capital, and a decision last year by the government to set ceilings on offshore borrowing, has made financing large pulp projects difficult. Officials of the Indonesian Pulp and Paper Association, estimate that at least seven pulp projects, with a planned total output of 1.7m tonnes, have recently been cancelled or postponed.

As Miss Sian Hansen, pulp and paper analyst at Crosby Securities, explains: "Virgin

## Per capita paper consumption: SE Asian countries (kg)

	1989	1990	Pop. 1990 (m)
Thailand	17.1	20.1	56.7
Malaysia	42.6	47.7	18.0
Indonesia	6.0	7.5	182.6
Philippines	9.3	9.4	62.4
Singapore	190.5	187.0	2.7

tropical fibre-pulp has taken a tumble in price, and the plants just couldn't be economical in this kind of world market."

Five projects, however, with a capacity of 3.4m tonnes a year of pulp are in the pipeline.

Sinar Mas Group, Indonesia's second largest conglomerate, is installing new pulp plants at its Indah Kiat and Tjiwi Kimia subsidiaries, with capacity of about 2,600 tonnes a day, at a cost of about \$1bn.

Industry officials say Barito Pacific plans a plant of 1,500,000 tonnes of pulp a day in South Sumatra, to be operational by 1995, at a cost of up to \$1bn; Mr Mohammad Hasan, a wealthy logging concessionaire, is planning a plant of similar size in East Kalimantan; and Indorayon has designs for a 1m tonne a year pulp plant in Riau province.

Mr Gus Nilo, managing director of Sinar Mas, believes Indonesia's long-term prospects are bright, and explains that "the issue is volume. If you cut down all the forests in Vietnam, it would be unable to supply China."

He estimates that only 5 per cent of Indonesia's forests need be turned into plantations for one third of the world's pulp demand to be supplied.

Whilst Indonesia's potential in the Far East is unrivalled, it has been slow to exploit its advantage. Miss Hansen estimates that Indonesia is at least 10 years behind Brazil in technology and the development of plantation forests, of which only 326,000 hectares had been planted by the end 1991.

## Indonesia's underlying competitive advantage makes its emergence as a key player in the market almost inevitable.

"Korea, Taiwan and Japan have pulp mills, but they import the wood. Their wood costs are about four times ours," explains Mr Nilo. While Brazil remains the cheapest producer, Indonesia should be able to cut costs further as more plantations come on stream, boosting productivity and pulp quality. Miss Hansen forecasts that the typical catchment area for a 200,000-tonnes-a-year pulp mill in Indonesia will fall from a current 32,000ha toward the 20,000ha of Brazil.

Indonesian companies are already looking toward greater regional integration. Sinar Mas has taken a stake in a paper mill in Ling Po, in southern China. There are plans to invest up to \$200m to expand the plant, the pulp being supplied from Sinar Mas's Indonesian operations.

As the industry matures in the Far East, officials believe

**While Brazil remains the cheapest producer, Indonesia should be able to cut costs further as more plantations come on stream**

Indonesia will capitalise on its cheap pulp production to take a greater share of the region's growing paper market.

As with pulp, that change is likely to be gradual. In 1990, Japan's paper and board demand totalled 28.2m tonnes, about half the region's consumption. Indonesia is almost alone in the region in producing more paper than it consumes, but net exports in 1991 were only 270,000 tonnes.

Although this was a fourfold increase over 1990, further high growth will be constrained by domestic demand, a low 7.5kg in 1990, which is rising by over 10 per cent a year.

William Keeling

## Regional report: Latin America

## Cheaper land, faster trees



Eucalyptus grows faster in the sunshine of Brazil

THIS YEAR has been a milestone for Latin America's pulp and paper industry. With Aracruz, the world's largest eucalyptus pulp company, completing a huge expansion project in Brazil, and the start-up of three new mills in Chile, the region is poised to become the world's leading low-cost supplier of cellulose.

The growth of Latin America's pulp industry confirms a world trend to move to low wood-cost areas. Land is cheap in both Brazil and Chile, generous government subsidies encourage reforestation, and trees grow faster there than almost anywhere else in the world.

Brazil has some 1.5m hectares of eucalyptus plantations, which can be felled after five years, compared with 10 years in temperate climates. Most of Chile's 1.4m ha of man-made forests are planted to Radiata pine, which matures after 15 years compared with 30 years in New Zealand, 40 in Sweden and 60 in Canada.

As a result, Finnish consultants Jaakko Poyry Oy expect Latin American mills to squeeze out high-cost producers in the northern hemisphere and contribute just under half of the world's increased production of cellulose - estimated at 8m tonnes - towards the end of the century. With world demand for pulp growing at an annual rate of 1.4 per cent, Jaakko Poyry expects Latin America to command 30 per cent of international trade by the year 2005. At present, it supplies about 15 per cent of the world trade in pulp.

Chile is well-placed to supply the fast-growing markets of Japan and south-east Asia, while Brazil's strongest markets are in Europe. In Brazil, the pulp-and-paper sector appears to have escaped the general malaise and economic chaos afflicting other industries. Exports are growing so vigorously that neighbouring Argentina was forced to introduce import quotas earlier this year to protect its domestic producers.

Brazil's papermakers export about a quarter of their annual production of 5m tonnes. Pulp producers sell almost 40 per cent of their 4m tonnes abroad. Both exports are up by 20 per cent this year and are expected to earn \$1.5bn.

Aracruz became the world's largest eucalyptus pulp company in 1993, after completing a \$1.2bn expansion programme at its mill in the state of

Espirito Santo, north of Rio de Janeiro. With capacity at 1.2m tonnes a year, Aracruz can now supply half of Brazil's short-fibre pulp, which is used for quality paper and tissues, and 24 per cent of the world's total. The company, owned by BAT's Brazilian affiliate Souza Cruz, Lorentzen and Banco Safra, is also investing \$100m to convert from chlorine to the more environment-friendly oxygen bleaching.

Companhia Vale do Rio Doce (CVRD), Brazil's largest mining conglomerate, is also investing heavily in the pulp-and-paper sector. Bahia Sul, a joint-venture with Brazil's top paper manufacturer Suzano, started up this year with a capacity of 500,000 tonnes. CVRD is also planning to double capacity at Cembras, its 350,000 tonnes-a-year pulp mill in Minas Gerais. Its partners here are a consortium of Japanese papermakers, Mr Marcos Montagna Carramota. CVRD's forestry industry chief, says the company plans to start a new pulp mill every two years, to reach a capacity of 2.5m tonnes by the year 2000.

Brazil's economic instability, however, is a serious setback for some \$5bn of pulp and forestry projects. Pulp manufacturers complain that the government lacks a clear industrial policy, while inflation and exchange-rate uncertainties are forcing them to postpone projects until the end of the decade. "If Brazil solved its economic problems, it could

wipe out all other short-fibre pulp producers in the world," says Mr Eladio Susaeta, an international consultant based in Santiago.

Chile's pulp industry also took a leap forward this year, with the start up of three new mills which have more than doubled the country's productive capacity to 1.5m tonnes a year. As a result, exports are expected to earn more than \$900m in 1993. Although Chile is now experimenting with eucalyptus, its comparative strength lies in the production of the more resistant long-fibre cellulose from Radiata pine.

Of the three new mills, the largest is Arauco II, a \$600m joint-venture between Brierley Investments of New Zealand and the Angelini group of Chile, which will produce 350,000 tonnes a year. Compania Manufacturera de Papeles y Cartones (CMPC), Chile's largest paper manufacturer, inaugurated a kraft mill in partnership with Simpson Paper of the US, which will produce 315,000 tonnes of bleached cellulose a year.

Santa Fe, owned by Scott Paper of the US, Citibank and Royal Dutch/Shell, is the only eucalyptus mill in Chile. It started production last year, but has been plagued by a shortage of raw material. Forestry experts say Santa Fe is having to venture up to 400km away from its site in southern Chile to obtain supplies of eucalyptus.

The three new mills are put-

ting pressure on Chile's forestry resources, as two-thirds of the 1.4mha of planted pine are less than 15 years old. Mr Susaeta believes the supply crunch will last another two to three years. Other forestry experts believe Chile will have to double the acreage under man-made forests to meet expected demand.

The dramatic growth in Chile's forestry industry has also exposed some serious infrastructure bottlenecks. Roads in

rural areas are poor, and delays at congested ports are adding to export costs.

Compared with Brazil and Chile, Argentina's pulp and paper industry is backward and inefficient. Almost half of the country's installed capacity lies idle. Pulp and paper production, which totalled 900,000 tonnes last year, is mainly for domestic consumption. Exports earned only \$90m in 1991.

Leslie Crawford

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Britain's local government is preparing for a leaner future. Chris Tighe looks at one authority's experience

## Tiers are shed as councils cut back

In his Wallsend town hall office, North Tyneside council leader Brian Flood is pouring tea from a big, canteen-style metal teapot into a mug emblazoned with the council's logo.

It is the sort of scene which has confirmed Labour-controlled North Tyneside's place in Conservative ministers' demonology of combative, left-wing local authorities.

But between sips of tea, Flood is explaining how the council's restructuring is wiping out layers of bureaucracy, making the organisation consumer-orientated, empowering its staff to meet service delivery targets and eliminating around 1,100 jobs.

Local authorities throughout Britain are undergoing profound change brought about by financial constraints, shifting social trends and central government-imposed policies like compulsory competitive tendering. But few restructurings are carried out amid such financial crisis.

North Tyneside is not only scrapping its departmental structure and toning down its previously confrontational approach to Tory central government, it is simultaneously deciding how to make cuts next year of £30m - 15 per cent of its budget - shedding in the process at least one in eight jobs. And it is doing all this in a matter of weeks.

The restructuring is partly a response to financial duress, council leaders believe no more cuts are possible under the present structure without eroding basic services.

The council also believes the delivery of flexible quality services demanded by the public conflicts

with the conventional local government structure of departments, each jealously guarding their roles and budgets. "The present culture, which has to change, is one based on selective professionalism which has erected barriers around each individual part of the council's activity," says Flood.

Within North Tyneside's "fossilised" departmental structure there are as many as 16 layers between directors and employees. Flood does not suggest that the intervening layers have been idle. "Everybody's been working hard; they're all answering each other's bloody questions."

The present system has also stifled communication. "It might start off as broad as the Tyne but it comes through like a tap dripping." Nor has there been any forum where heads of department meet councillors. Until now, says Flood, local government has been designed to keep elected members out of the way. "That's why it's failed."

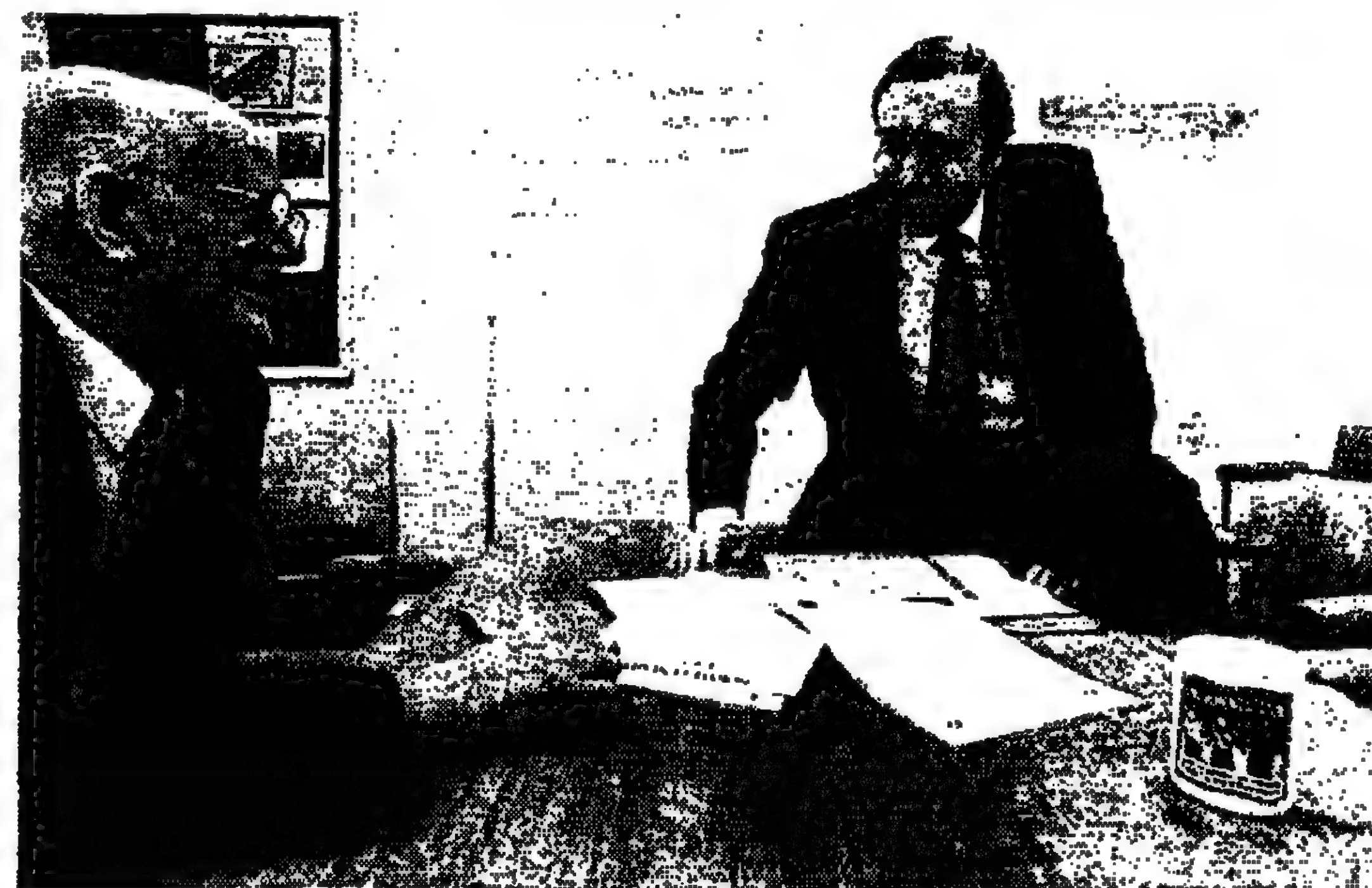
The restructured North Tyneside council will have six executive directors who will meet each week with the leader and senior councillors, forming, in effect, a management board. One side-effect of the new structure is that ruling group councillors will gain more power to ensure that committee decisions are implemented.

Present legislation stipulates that councils must appoint directors covering areas like education and social services. North Tyneside's executive directors will bear the titles required by law, but none will be responsible for the day-to-day running of services. That job will fall to 16 heads of function, under whom will be 45 senior managers, 150 managers, a lower tier of first-line managers - and then grassroots employees.

"We want a flat structure," says Flood. There will be no more than three layers between heads of function and the people on the ground. Heads of function will be set tough targets for service delivery; these may include annual budget reductions for core services so they can introduce pilot schemes to explore new areas of consumer demand. Performance related pay is under consideration.

The reorganisation, to be concluded by Christmas, means that all 9,500 employees have had to apply for posts at or around their current level. So far the top three levels have been appointed. The spotlight is now on the lower managerial tiers where job cuts will be heaviest.

Compulsory redundancies, anathema to the council until now, are inevitable although 1,000 staff have volunteered in the last two years. "The unions are sympathetic to the council's budget problems and do not oppose the restructuring in principle. But Nalco, the white collar public service workers' union



Wiping away layers of bureaucracy in North Tyneside: Brian Flood (right) with deputy council leader Ernie Dalziel

which expects 500 of its 3,000 members at the council to lose their jobs, is unhappy at the distribution and size of the cuts. It is holding a one-day strike tomorrow and threatens further action.

Branch secretary Trevor Johnston argues that: "There's this great myth that there are all these layers of managers doing nothing. It might have been true 10 years ago. But there's been substantial delaying over the last five years."

Such is the scale of staff cuts, he

argues, that some managers in the new structure may face an impossible task.

He complains that the reforms have encouraged an "opportunistic culture", with some employees gaining promotion at others' expense.

Nalco is worried that restructuring is distracting attention from heavy job losses. Conversely, Ian Gordon, Conservative opposition group leader, fears that the service cuts which may result from the council putting its finances in order

may cloud the public's perception of restructuring.

Although Gordon criticises some appointments as "blatantly political", both the restructuring and the Labour group's new pragmatism have Tory support. "We welcome this conversion on the Damascus road," he says.

Still, tough battles lie ahead. But Flood, topping up that tea mug, is bullish: "We think in three years' time we'll set the standard for the way councils operate."

## How to take a team into the premier division

Christopher Lorenz assesses a new study on improving corporate performance



The trouble is that most so-called teams are not worthy of the name, and fall utterly to deliver the high performance levels of which real

teams are capable. They are often either just working groups or task forces, which though usually seen as synonymous with teams, are actually very different animals.

At best, they are a third type of species: potential teams, which try hard to improve their performance, but lack clarity about purpose, goals, or joint work-products, as well as the discipline to hammer out a common working approach. Nor have they established mutual accountability.

At worst, they are pseudo teams: collections of people concerned about their own performance, not performance as a team. They are dealing with each other that their communal performance is less than the sum of their individual parts.

The chart (left) shows the yawning gap between their output and

that of high-performance teams, in which members are deeply committed (as in real teams), but also to each other's personal growth and success. These are just a handful of the conclusions from a unusually thorough study of teams - real and pseudo - which has just been published as a book, appropriately titled *The Wisdom of Teams*.

As well as challenging much conventional wisdom about teams, the book is full of advice about how to organise proper - and properly effective - ones. It draws examples from manufacturing companies such as US General Electric, Hewlett-Packard, Kodak, Motorola, and Procter & Gamble, as well as from service organisations such as the Burlington Northern railroad, the Deloitte & Touche accounting firm,

Prudential Insurance of America and even a high school basketball team called The Killer Bees.

The book also provides a plethora of case studies of team inadequacy - from slight to complete - although most of the company names have had to be disguised.

In order to write the book, its co-authors Jon Katzenbach and Douglas Smith, who are leading consultants at McKinsey & Co in the US, studied the workings of more than 50 teams (actual and so-called) in 30 companies. Their findings include:

- Top teams are the most difficult to make effective.
- A demanding performance challenge, set within the sort of performance culture exemplified by Motorola, tends to create real teams far more effectively than do team-

building exercises, special incentives, or team leaders with ideal profiles.

• The disciplined application of "team basics", including size, purpose, goals, skills, approach and accountability is often overlooked.

• Hierarchy and teams go together much better than is appreciated by people who see teams as a replacement for hierarchy.

• Team performance opportunities exist in all parts of the organisation, rather than just a few, as most companies think.

• Most organisations prefer individual over group or team, and accountability.

• Teams naturally integrate short-term performance with longer-run learning.

Katzenbach and Smith define real teams as more than just "an

extremely dedicated group of people working together to accomplish something of great importance to themselves". That is the definition of a group, they argue.

By contrast, a team should be thought of more precisely as "a small number of people with complementary skills who are committed to a common purpose, performance goals and approach for which they hold themselves mutually accountable".

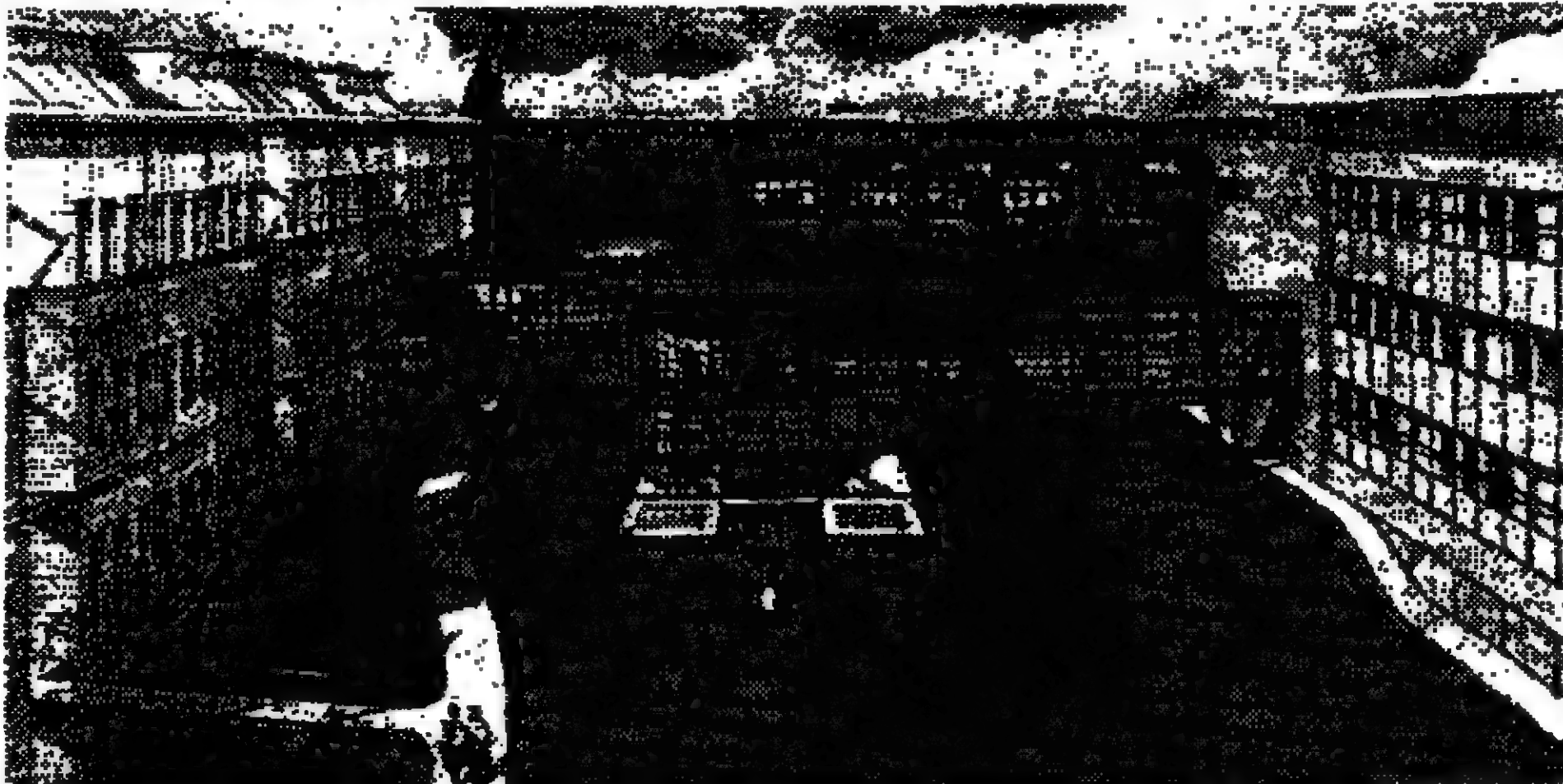
Each part of this definition - or what Katzenbach and Smith call "this essential mode of discipline" - requires close attention, they say. For instance, "complementary skills" covers three categories: technical or functional expertise; problem-solving and decision-making skills; and interpersonal skills.

The duo stresses repeatedly that a focus on performance and accountability - not on chemistry, teamwork or good communications - "is what makes teams happen".

Published in US by Harvard Business School Press, price \$24.95. In UK by McGraw-Hill, price £21.95.

## CONSTRUCTION CONTRACTS

### Supplying mechanical services £25m work for Hall & Tawse



An artist's impression of IBM building currently under construction for IBM at Hursley Park

HOW ENGINEERING SERVICES has been awarded three mechanical, electrical and plumbing services contracts totalling some £10m.

A £5.7m order for Glaxo research campus at Stevenage, Hertfordshire, has been won for the microbiology laboratory and biology node.

The second contract is for the BAT project test Phase 1 at Southampton which is worth £8.5m.

The third contract, worth £3.5m, is at Heathrow Airport for services to the base building for the new combined operations centre.

#### Mixed batch

Walsall-based KENDRICK CONSTRUCTION has boosted its activity in the West Midlands by winning nearly £10m of new work.

Heading the list are two contracts for Birmingham City Council, totalling £8m, to be undertaken by the company's repairs and maintenance division.

It is also carrying out a £1.5m extension and new building project at Colton Hills School for Wolverhampton Metropolitan Borough Council.

The design and build division has secured a £1.5m office block development in Droitwich for the Crown Prosecution Service.

#### Bypass project

KIRK NORTH EAST has been awarded the £4.6m contract for construction of the A16 Easingwold bypass in North Yorkshire by the Department of Transport.

The 2.1 mile long single carriageway road will incorporate two new bridges to carry roads over the bypass.

#### Council estate

FITZPATRICK BUILDING has been awarded the Phase IV £1.06m external refurbishment contract at the White City Estate, Hammersmith, for the London Borough of Hammersmith and Fulham.

The contract will last 25 weeks and the works include replacement of windows, concrete repairs, security door entry systems, new entrance lobbies and bin stores.

HALL & TAWSE, the construction division of Raine Industries, has been awarded contracts worth £25m.

In the Midlands, Hall & Tawse Western has won a £2m contract from Dudley Metropolitan Borough Council to build a primary and nursery school at Brimley Hill, which will include a two-tier hall incorporating music and library amenities above.

It is also carrying out a £1.5m extension and new building project at Colton Hills School for Wolverhampton Metropolitan Borough Council.

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HALL & TAWSE Southern has gained a £1.2m order for a refurbishment project at RAF Benson in Oxfordshire and a contract for IBM to convert the basement of a former nine-storey office block into a conference and meeting room centre.

Above ground the basement will be "refurbished" over and landscaped, with only the central glass atrium and glazed linked walkways, which connect at

first floor level to surrounding buildings, being visible.

In the health sector Hall & Tawse has won a £1m contract at the Falkirk Royal Infirmary to build a single-storey 10-bed admissions unit, and a separate single-storey assessment unit, while in the retail area, Hall & Tawse Eastern has gained work from Boots to fit out two Children's World stores.

Ministry of Defence has also been won for an RAF Hospital at Lakeside in Lincolnshire, worth £10.5m, for completion in 112 weeks with a start in January.

The contract covers an operating hospital with full support service units and includes refurbishment of existing facilities.

Other awards include an extension to a school in Leeds for Leeds City Council, value £4m, a river bridge over the River Soar and roadworks on the A563 for Leicestershire County Council, worth £2.1m.

A building contract for the way will be started immediately and will be completed in two years.

In Scotland the company has received its first major award from Aberdeen Harbour Board for a multi-bay facility, value £2.5m over an 11-month contract period.

The project is for the formation of berthing facilities by piling inland from existing quay faces, major dredging and excavation plus ancillary works including concrete paving, transit shed and office facilities.

A building contract for the access to Chatham Maritime from the motorway network. When completed, the scheme will provide a dual carriageway north-south link, some 650 metres in length. Two roundabouts will serve existing developments and open up further sites for development at Chatham Maritime. Central to the scheme is a grade separated roundabout to link the Medway tunnel being constructed to the west, with the Gillingham northern link road

that will be developed to the east.

Twin 22 metre span reinforced concrete bridges will carry the Primary Highway across the tunnel approach cutting. This 125 metre long trough is to be excavated to a depth of 10 metres within sealed piling walls.

Also included is a 0.3km dual carriageway western link road. Ancillary works also include provision of a pumping station.

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that will be developed to the east.

## Around the world to graze at Geest



Kevin O'Donoghue (left), previously managing director of Philias Fogg snacks, has had his appetite whetted by Geest's 'very big plans for added-value convenience foods'.

Kevin O'Donoghue (left), previously managing director of Philias Fogg snacks, has had his appetite whetted by Geest's "very big plans for added-value convenience foods" and has taken over as managing director of the newly formed subsidiary Geest Convenience Foods.

The fresh produce and prepared foods group has identified a number of chilled markets where it has been investing heavily; it has recently spent £10m on what is supposed to be the most sophisticated pasta-making production facility in northern Europe.

Following two acquisitions in the past three years, Geest is the UK's leading supplier of chilled pasta and number two in chilled pizza. The incoming managing director's ambition is to expand convenience foods, via organic growth, acquisition and partnership, tenfold over the next five years.

O'Donoghue, 42, joined Philias Fogg in 1988, brought in by the founders of Consett-based Derwent Valley Foods who had, in 1982, started what became a high-profile start-up in north-east England. Very successful in developing snacks such as tortilla chips and Californian corn chips, the

three founders wanted to devote more time to business interests outside the UK, and employed O'Donoghue as managing director of Philias Fogg. He claims to have doubled turnover there, tripled profits and "grown the brand to a must-stock item for most of the multiples".

Previously, O'Donoghue had been president of United Biscuits in Brazil, setting up a joint venture biscuit company with a Brazilian flour-milling organisation. He describes himself as having previously "done the rounds" of United Biscuits, which he joined in 1973 from Powell Duffryn.

### Bodies politic



John Keeton (above), a director of Rathbone Trust Company, has been elected vice-chairman of the ASSOCIATION OF CORPORATE TRUSTEES.

### CORPORATE TRUSTEES.

Henry Gwenter, a director of First Financial, the financial pr and marketing consultancy, has been elected a fellow of the CHARTERED INSTITUTE OF BANKERS, he lectures on investment and is an assistant examiner in the subject.

Lord Carter, opposition spokesman on agriculture in the House of Lords and president of the British Institute of Agricultural Consultants, has been appointed chairman of the UNITED KINGDOM CO-OPERATIVE COUNCIL; he succeeds the founding chairman Keith Brading who becomes honorary life

### president.

Bo Christensen, director of the Danish Film Institute, has been appointed director-general of the EUROPEAN SCRIPT FUND from next March.

Gordon Rankin, head of brands & products and deputy director, personal sector marketing, has been appointed chairman of DELTA MEMBERS GROUP for a one-year period.

Gordon Dunlop has retired from HI-TEC SPORTS. John Azam has been promoted to director of operations of the PERFORMING RIGHT SOCIETY.



Alastair Ross Goobey, James Capel's chief investment strategist and author of one of the liveliest weekly investment newsletters, has decided to practice what he preaches. Next month he takes over as chief executive of PostTel Investment Management, Britain's second biggest pension fund manager.

## Robb steps back from Aberdeen Trust

George Robb, one of the founders of the small and aggressive fund management company Aberdeen Trust, is stepping down as executive chairman, but remaining on the board as a non-executive director.

The group, which has suffered, particularly earlier in the year, from the weak dollar, has seen its share price drop from 60p in March 1991 when it joined the stock exchange, to a low of 24p this year.

Currently with around £1.6bn of funds under management, the company's transaction-driven expansionist strategy has not been without its detractors. "George Robb has been for some time that what interests him most is building companies," says chief executive Martin Gilbert, "whereas now we have entered a consolidation phase. We need to pay attention to becoming more

client-orientated."

Whereas the company has been strong in Far Eastern emerging markets and UK smaller companies, it has lagged in other areas, notably continental Europe. Another catalyst for the change in emphasis has been the purchase of Century life assurance group in September, which added around £450m in new funds to manage as well as affording access to a direct sales force. "It is going to be an enormous amount of work integrating Century," Gilbert believes.

Robb, 50, and Gilbert, 37, founded the business in 1983 as a management buyout from a firm of Aberdeen solicitors, Brander & Cruickshank, where Robb was a partner in the investment management department and Gilbert was his assistant. Robb took over as executive chairman at the

time of the stock market listing. "Since becoming chairman, I found there was a decreasing amount to occupy me. It was a miscalculation on my part," Robb, who was previously chief executive, now admits. "It was a good time to make a break."

He is looking for other opportunities, not necessarily within fund management. Among a number of other outside directorships he is on the board of Aberdeen Petroleum, a USM company which he helped establish in 1981.

Meanwhile, Angus Pelham Burn, 61, takes over as non-executive chairman. A well-known figure in the Scottish financial community, Pelham Burn has been a director of Aberdeen Trust since 1985. He is also a non-executive director of the Bank of Scotland and a member of Grampian regional council.

Goobey, 47, is only the third chief executive to look after the £20bn of pension fund money of British Telecom and the Post Office. He takes over from former Bank of England man Alan Thredgold, who in turn took over from Ralph Quartano.

Although Ross Goobey has made his name recently as James Capel's investment guru and a special political adviser to the Chancellor of the Exchequer, he has earned his spurs as fund manager. Before becoming a stockbroker, he had been a director of Geoffrey Morley & Partners, Independent pension fund managers, and before that had managed the Courtauld's pension fund. Although part of his job at PostTel, which has 160 staff, will be administrative, Ross Goobey will also be director of securities investment.



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## Sculpture and architecture

## Life breathed into stone

If you feel the need before Christmas to escape from crowded festivities, I thoroughly recommend some calm moments at the Barbican Art Gallery.

I went to see the exhibition of sculpture there by Eric Gill (which runs until February 7) with some reservations, a lot of prejudice, and muddled preconceptions about Gill's life and work. But this exhibition does what a good exhibition should: it both delights the eye and stimulates the mind. It also presents with great clarity the personality of the artist within the context of his creative life.

Much of Gill's figurative sculpture is hard to see because it is either in private collections or is permanently fixed to buildings. This is the first retrospective of his figurative sculpture - and it is no mean achievement to have assembled nearly 50 important works, mainly of the period 1910 to 1930. They are beautifully displayed in a way that brings out the direct quality of Gill's work. He made stone breathe quietly and many of these works exude a tranquil life of their own.

I also braved the architectural terms of the Barbican, because I believe that there is no real future for architecture as an art that can inspire and nourish unless its practitioners have a sympathy for all the visual and plastic arts.

I am permanently baffled by the separation between architecture and the fine arts. There is still very little communication between architects and artists in educational establishments, and there have only been marginal improvements in the last decade in the commissioning of public art.

The official artistic bureaucracy wastes millions on

schemes like "per cent for art", which sees art as some kind of expendable "add-on", not as an intrinsic part of any creative initiative. Understood that it is possible for fine art - which embraces the irrational, imaginative and sensual - to be a crucial part of everyday life. His sculptures for the BBC, London Transport and his war memorials have a sense of propriety and rightness where they are. He understood architecture and its relationship

Colin Amery  
admires the work of  
Eric Gill

with sculpture - perhaps because his creative life began as an apprentice to an architect.

When he was 18, Gill joined the office of W.D. Caroe, the leading church architect of the time and from whom Gill learned the disciplines of architectural drawing. In the transitional years of the 1900s style was as much a matter of debate as it is today. Caroe, who was often thought of as a rather dull gothicist designed in a whole range of styles.

Gill soon became fascinated by the theories of William Morris and John Ruskin and absorbed from them some of his early ideas about craftsmanship, labour and art. He decided not to attend evening classes in architecture, but to study the art of lettering under Edward Johnston at the Central School - and to learn practical masonry. These two skills flourished and in 1903 another architect, Edward Prior, gave Gill his first lettering commission. He invited him to design the lettering for the new medical school in

Downing Street, Cambridge. So it was through architecture and lettering that enabled Gill to become a freelance artist, craftsman, and to put some of his theories into practice concerning the sacredness of work dedicated to the service of art.

By 1909 Gill was beginning to make figurative sculpture and felt that he had made a most important discovery. He wrote: "It was like a new alphabet - the word was made flesh." Gill's method of working was to carve directly in stone. He would not consider modelling in clay or employing the help of other craftsmen - he cut directly into the stone and was probably one of the first sculptors in England to work in this way since the Middle Ages. It is this sense of directness that is so evident at the Barbican exhibition.

The remarkable nature of Gill's talent as a sculptor was soon recognised and he secured an important commission as early as 1913, when he was asked to carve the Stations of the Cross for the new Roman Catholic cathedral at Westminster. The pencil, ink and water colour drawings in the exhibition are no substitute for going to Westminster Cathedral to see the full size carved originals, but they are fascinating as working drawings squared up for transfer to the stone. As drawings, they have that hermetic, almost diagrammatic quality that is also present in the stone reliefs. For such relatively early work they are extraordinary and potent icons.

The mixture of erudition and religious faith is a thread that runs throughout Gill's work and life. We all learned more than we really needed to know about his communal attitudes to sex in Fiona MacCarthy's biography of Gill. What is sur-



An early stone relief by Eric Gill: 'The Boxers', 1913

prising - and wonderful - about this collection of sculptures is that they exist with lives of their own - quite apart from all the hypocrisy of Gill's life - as very pure works of art of great integrity. Even 'Ecstasy', Gill's most sexually obvious work (which was owned by the same collector who commissioned Rodin's 'The Kiss') has more of a moment of wonderment about it than any sense of pornography.

The two major architectural

works, 'Prospero and Ariel' for the BBC's Broadcasting House in London, and the 'Four Winds' for London Transport's headquarters, are well known. It was more interesting to see the drawing for the huge relief for the headquarters of the League of Nations in Geneva (1935) on the theme of the 're-creation of man', and the actual Portland Stone relief from the Midland Hotel (1933) in Morecambe on an Odyssean theme - which is wild and spirited and curiously

scaled.

We need more artists like Gill, prepared to work with architects and to be sympathetic to the idea that every man - especially the craftsman and builder - is also an artist. Sadly, we are today miles from that idea, as most buildings are merely mechanical assembly of manufactured parts. Gill shows the intense, creative fulfilment of working with the hand and the eye. This exhibition quietly and carefully illuminates that idea.

## Theatre

## The Witches

On one side of St Martin's Lane you can see the opera *Hansel and Gretel* (at the Coliseum). On the other you can see *The Witches* (at the Duke of York's). It is amazing how much the two works have in common, especially in this particular pair of stagings. A witch is not just a crows living in the faraway depths of a wood any longer. Some children this Christmas will be taken to the one, some to the other. An enterprising parent might do well to take their children to both.

The witches in Roald Dahl's story do not bake children or eat them - they turn them into mice. And the best fun of seeing *The Witches* as a play comes in watching these transformations - how are they done? - and then in watching the boy-mice adapting to their new circumstances. In fact, the mice scenes resemble another show opening this weekend, Frederick Ashton's *Tales of Beatrix Potter*, the opening of the play's second half reminds me of what Ashton said to his mice-dancers: "Wouldn't it be lovely to have a tail, think of all the things you could do with it, you could pick things up and carry them, you could skip rope with it."

Otherwise, Dahl's story holds an audience simply because he tells a story so well. It does not have the mythic power of the Grimm's fairy-tale, but its modern liveliness and its whimsical philosophical touches have their own impact. Boy learns from Grandmother that the world is full of witches; and to us, watching, the witches (as in Humperdink's opera) are both alarming and absurd. Boy and Grandmother save the children of England from the witches; but Boy himself has to stay a mouse, and learns how to cope with that.

The adaptation and staging are by David Wood, and they proceed at a more plodding, heavy-handed pace than last year's staging of *The BFG*. Karen Briffett plays Boy with over-wide eyes and a shrill voice about half an octave



Dorothy Ann Gould

too high, but is otherwise engaging. The performance I watched was largely attended by school-parties of young children. They were not driven to any particular peaks of fright or amusement, but they were completely attentive to every turn in the action. The grown-ups fidgeted only a few times.

Alastair Macaulay

At the Duke of York's Theatre

## David Mamet's 'Oleanna'

Even more interesting than the clash of opposites onstage in David Mamet's new play *Oleanna*, now playing at New York's Orpheum Theatre in a production directed by the author, are the conflicts it elicits offstage, within and between its audience members. The play is a beautifully written, elegantly constructed (save for an implausible dénouement), and wholly provocative conversation piece which furthers America's national debate about sexual harassment, begun last year when then-Supreme Court nominee Clarence Thomas was accused of harassment by his former employee Anita Hill.

In the brief first act, college student Carol comes to her professor's office to confess that she is floundering in his education course. John, the professor, takes her on as an educational experiment, offering her an "A" if she will agree to one-on-one tutoring sessions. In the process of their conversation, John makes some off-colour remarks and, when Carol becomes particularly distraught, puts his hand on her shoulder. He confides in her that he is up for tenure and hoping to buy a house; the repeated phone calls from his wife and lawyer about the purchase make for a conversation full of half-sentences and interrupted thoughts - quintessential Mamet.

Having set up the situation - and the audience - Mamet plays his trump card in the second act. Carol brings charges of sexual harassment against John. Unless he can persuade her to drop the case, his tenure hearing will be postponed and he will lose the house. They meet in his office twice more, the stakes rising and the gulf between their positions widening in a terrific exercise in dramatic tension, which Mamet underlines with an overwrought explosion of violence at the play's end.

Did John really harass Carol, or has Carol set John up to undermine his career? Mamet left the characters' words and actions so ambiguous that it is up to each audience member to decide; differing perceptions turn casual discussions of *Oleanna* into confrontations. On one level Mamet is the perfect playwright for this subject matter: indeterminate language is his forte. But, given the position of women in his previous works - nonexistent, as in *Glenview Glen* and *American Buffalo*, or peripheral, as in *The Water Engine* and *Speed-the-Plow* - it is no surprise that in *Oleanna* he has stacked the deck against them by underwriting Carol's character. Unlike John, we are

never given information as to her background, personality or motivations.

This problem is exacerbated by Rebecca Pidgeon's wooden performance - for which Mamet must share blame. Presumably we are seeing what he, as director, as well as writer, wants us to see: in the first act she is a lifeless, clueless, sexless creature in a shapeless sack dress who repeats "I don't understand" with whining monotony. William H. Macy literally circles around her like a vulture, rants and preens all over the stage while Pidgeon sits motionless and stares stupidly at her feet. In the second act, she becomes a mannish feminist in trousers and waistcoat spouting allegiance to her "group," seemingly driven less by passion than programming.

But Mamet's uneven treatment of the issues only strengthens his overriding point that what really matters is not who is right or wrong, but who has got the power. The closest thing this battle of a play has to a winner is not John, Carol, or the genders they represent, but the author himself. He is out to provoke with *Oleanna*, and he has done it, in spades.

Karen Fricker

## Concert/Richard Fairman

## Scandinavian song

The time when the only Scandinavian song we ever heard was Grieg's "With a waterlily" sung in German by Elisabeth Schwarzkopf suddenly seems a long way off. Over the past month the "Tender is the Night" festival has inaugurated a virtual single market for songs in which the music of Northern composers has won an equal hearing alongside that of their continental counterparts.

On Thursday it was the turn of Soile Isokoski, a young Finnish soprano too little known in this country. I first heard Miss Isokoski as a Valkyrie in *Amsterdam*, but for her Wigmore Hall recital she had laid her soprano and belted aside. It is the rounded and pure beauty of the sound that is her prime gift, fine for the Mozart heroines she sings on stage, but also warm and succulent in Berg's *Seven Early Songs*.

Like the other sopranos in this festival, she gave us the inevitable Grieg waterlily, floating in her performance over an undercurrent of urgent anxiety. But that degree of intensity in her singing was unusual. Among her Schubert songs, one of the best was "Nacht und Träume", where the voice showed that it could grow in volume and pressure, while sounding just as relaxed as before.

Overall there was a lack of variety, which the beauty of the singing did its best to

mask. The *Four Dream Songs* by Aulis Sallinen, Finland's most feted living composer, had a special nocturnal loveliness. The accompaniments, evocatively played by Marita Vittasalo, are made up of eerie sounds overlapping each other in soft focus to set up the dream-like atmosphere, while the voice sings above.

Throughout the festival another voice has been introduced using the Scandinavian songs. This is Elisabeth Söderström, recently-retired Swedish soprano, who has preceded each of the recitals with a talk on what the evening's singer is about to deliver. On Tuesday last, however, Thomas Allen called at the last moment and she discovered that she was introducing herself.

At a moment like this a long and varied career into which to delve is invaluable. Söderström, expertly accompanied by Roger Vignoles, gave us probably the most far-reaching programme of all: Sjögren, Nielsen, Peterson-Bergner, Klippel, Linder, and Rangström. The last - Rangström has been one of the discoveries of this festival - composed two of the singer's favourite songs, including the bleak but tender "Den enda stunden". For once, Grieg's waterlily was left in peace.

Recitals sponsored by British Airways and Scandinavia. Enkilda Banken



## BERLIN

**CONCERTS**  
Philharmonie Tonight, tomorrow: Claudio Abbado conducts Berlin Philharmonic Orchestra in works by Ligeti and Rihm, plus Beethoven's Second and Fourth Piano Concertos with Maurizio Pollini.  
Thurs: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in works by Mahler, with Dietrich Fischer-Dieskau soloist in the *Lieder eines fahrenden Gesellen*. Sat, Sun morning, next Mon: Pollini plays Beethoven's First Piano Concerto, in a Berlin Philharmonic concert featuring works by Rihm, Lutoslawski and Berio (2548 8232).  
Schauspielhaus Tonight: Daniel Barenboim conducts Berlin Staatskapelle and Chorus in Verdi's *Requiem*. Thurs: Bach's Christmas Oratorio first part. Fri: George Cleve conducts Berlin Radio Orchestra in Barber's overture *The School for Scandal*, Ives' Second Symphony and

Bernstein's Third (2080 2156). Sat, Sun, Mon: Alexander Rahbari conducts Berlin Symphony Orchestra in Elgar's Cello Concerto (Boris Pergamenschikov) and Shostakovich's Fifth Symphony (2080 2261).

**OPERADANCE**  
Deutsche Oper A new Peter Schaufuss production of *Nutcracker* opens on Fri, repeated on Sat. Tonight: Die Zauberflöte. Thurs: L'italiana in Algeri. Sun: Hansel and Gretel (3410 249).

**Staatsoper unter den Linden**  
Tomorrow: Mozart and Salieri double bill. Wed: Paul Dessau's opera *Die Verurteilung des Lukullus*. Thurs: Salome with Marc Zampieri and Theo Adam. Fri: La traviata with Tiziana Fabbricini and Dmitri Hvorostovsky. Sat: Tannhäuser with Klaus König and Anna Tomowa-Sintow. Sun: Hansel and Gretel (2004 762).  
**Komische Oper** Tonight: Rienzi. Tomorrow: Eine Nacht in Venedig. Wed: Gluck's *Orfeo*. Thurs: ballet evening. Fri: Die schwelgische Frau. Sat: Così fan tutte. Sun: Carmen (2292 555).

## GENEVA

**MUSIC**  
This year's Christmas show at the Grand Theatre is a French-language adaptation by Alain Marcel of Cole Porter's *Kiss Me Kate*, opening on Thurs and running daily till Dec 31, except Dec 24 and 25 (311 2311). Wed at Victoria Hall: Armin Jordan conducts Orchestre de

la Suisse Romande in works by Bach, Zemlinsky and Dvorak (311 2511).  
**THEATRE**  
Theatre de Carouge has a production of Goldoni's *The Rustics* opening tomorrow, daily till Sun. Further performances Dec 29, 31 and Jan 8-24, daily except Mon (343 4943). Faroe, an evening of theatre based on Molière and Dario Fo, can be seen at the Comedie till next Mon (320 5001).

## MILAN

The opening production of the season at La Scala is Don Carlo, conducted by Riccardo Muti and staged by Franco Zeffirelli. There are four more performances this month and five in January. Luciano Pavarotti sings the title role tomorrow, Sat and next Tues; Sergei Larin takes over on Thurs and in Jan. This week also includes performances on Wed, Fri and Sun afternoon of the Nureyev production of *Nutcracker*. Next Mon: orchestral concert conducted by Myung-Whun Chung (7200 3744).

## NEW YORK

**OPERADANCE**  
Metropolitan Opera Tonight: La bohème with Veronica Viario and Lise Lina. Tomorrow and Fri: Lucia di Lammermoor with June Anderson. Wed and Sat afternoon: Eugene Onegin with Mirella Freni and Thomas Hampson. Thurs: James Levine conducts Die Walküre, with Gwyneth Jones, Jessye Norman

and James Morris. Sat: Jenfa with Gabriela Benackova, Leonie Rysanek and Ben Heppner (362 6000).  
**State Theater** New York City Ballet presents the Balanchine production of *Nutcracker* daily except Mon till Jan 3. No performances Dec 17, 24, 25, Jan (870 5570).

**City Center** Alvin Ailey American Dance Theater, till Jan 3 (581 1212).  
**Joyce Theater** The Mysteries and What's So Funny, music-theatre work by Philip Glass, opens a three-week run tomorrow (242 0800).

**CONCERTS**  
Charles Dutoit conducts this week's New York Philharmonic Orchestra concerts at Avery Fisher Hall. Tomorrow at 18.45: works by Berlioz and Tchaikovsky. Thurs, Fri morning and Sat: Tchaikovsky's First Symphony and Prokofiev's Fifth (875 5030).

**JAZZ/CABARET**  
Ballroom A sleek green-walled room with a much-admired restaurant/tapas bar, Melba Moore is this month's artist. Shows at 21.00 Tues till Sat, with an extra show at 23.15 Fri and Sat (253 West 28th St, 244 3005).  
**Algonquin Hotel** Andrea Arcovici, skilled vocalist and lively raconteur, is queen of the Oak Room. Shows at 21.30 Tues to Sat, with an extra show at 23.30 on Fri and Sat. Dining (59 West 44th St, 840 6800).  
**Bottom Line** A big, airy folk and rock club (15 West 4th St at Mercer St, 228 6300).  
**Red Blazer** Too in the back room

you'll find swing bands, Dixieland combos and couples sprung from the legacy of Fred and Ginger (349 West 48th St, 262 3112).  
**Rainbow & Stars** Expensive cabaret currently running a well-received series of composer tributes. Shows at 20.00 and 22.30. Dining. Closed Mon (30 Rockefeller Plaza, 632 3000).

## VIENNA

**OPERA**  
**Staatsoper** Tomorrow: Tosca. Thurs: Die Zauberflöte. Fri: La forza del destino. Sat: Christoph von Dohnányi conducts first night of Adolf Dresen's new production of *Die Walküre*, with Hildegard Behrens, Robert Hale, Waltraud Meier and Plácido Domingo (repeated Dec 22, 26, 29). Sun: *Nutcracker* (51444 2980).  
**Kammeroper** The company is marking its 40th anniversary with a new production of Rossini's *Il Signor Bruschino*. This week's performances are tonight, Wed and Sat. Runs till Jan 23 (513 8072).

**CONCERTS**  
**Musikverein** 19.30 George Albrecht conducts Tonkünstler Orchestra in works by Willli, Weber and Bruckner, with piano soloist Peter Rosell. Tomorrow: Rafael Frühbeck de Burgos conducts Vienna Symphony Orchestra in works by Weber, Schumann and Wagner, with piano soloist Bruno Leonardo Gelber. Thurs: Pincas Steinberg conducts Austrian Radio Symphony Orchestra in a concert performance of Duke Bluebeard's castle, with Marilyn Zechau and

Wolfgang Schoene. Fri: Peter Schreier conducts Bach's B minor Mass. Sun morning and Mon evening: Daniel Barenboim and the Vienna Philharmonic Orchestra play Beethoven's Third Piano Concerto and Sixth Symphony. Dec 22: Barenboim gives a Schubert piano recital (5105 8190).

**Konzerthaus** 19.30 Zoltan Kocsis piano recital. Sat and next Mon: Adam Fischer conducts concert performance of *Mitridate*, with cast including Eva Mei and Jochen Kowalski. Sun morning: Martin Sieghart conducts Vienna Symphony Orchestra in Mahler's Ninth Symphony. Dec 31 and Jan 1: John Eliot Gardiner conducts Beethoven's Ninth Symphony (712 1211).

**THEATRE**  
A new production of Chekhov's *Uncle Vanya*, directed by Achim Benning, opens at Akademietheater on Fri. The Burgtheater repertory includes a new production of Kleist's *Das Käthchen von Heilbronn* directed by Hans Neuenfels (51444 2218). Elisabeth, a musical based on the life of the child bride of Emperor Franz Joseph, can be seen at Theater an der Wien daily except Wed (588 30265).

**International Theatre**  
Forzellengasse 8, has a stage version in English of Dickens' *A Christmas Carol* daily till Sat, also Dec 21-23 and 29-31 (319 8272).

● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available for holders of credit cards by ringing Vienna 5131 513.

## European Cable and Satellite Business TV

(all times CET)

## MONDAY TO FRIDAY

CNN 2000-2300, 2200-2300 World Business Today - a joint FT/CNN production with Grant Perry and Colin Chapman.

**Super Channel** 0700-1200, 1200-1300, 2200-2240 FT Business Daily 0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly - global business report with James Salini 0710-0730, 1240-1300 (Wed) FT Media Europe 0710-0730, 1240-1300 (Fri) FT East-ern Europe Report 2240-2248 FT Report.

**Sky News** 2030-2100, 2230-2300 FT Business Weekly.

## SATURDAY

CNN 0600-0630, 1900-1930 World Business This Week - a joint FT/CNN production.

**Super Channel** 0830-0900 FT Business Weekly.

**Sky News** 1130-1200, 1730-1800 FT Media Europe.

## SUNDAY

CNN 1030-1100, 1800-1830 World Business This Week.

**Super Channel** 1900-1930 FT Business Weekly.

**Sky News** 0130-0200, 0530-0600 FT Media Europe 1330-1400, 2030-2100 FT Business Weekly.



## FINANCIAL TIMES

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Monday December 14 1992

# EC pulls back from brink

THE EC drew back from the brink at Edinburgh because its leaders saw all clearly the risk of falling over the precipice. Sensible compromises, above all over the Community budget and the Danish question, have re-assembled the Twelve around its core aim of political and economic integration. But the interpretation of how, and during what period, this objective is to be achieved is now, in most parts of the EC, less ambitious, and therefore more achievable, than that outlined a year ago at Maastricht.

Mr John Major can take pride in winding up Britain's problem-strewn EC presidency with agreements restoring a sense of EC balance and purpose. Anything else would have wrought devastating harm to the Community's image and its ability to deliver policies, both internally and externally. Not least, failure in Edinburgh would have damaged chances of forging a strong relationship with the new US administration, and of helping alleviate chaos in Russia and other parts of eastern Europe.

Yet the return of consensus in no way guarantees that the EC can avoid turbulence. Enlargement talks with Austria, Finland and Sweden are to get under way from next month. But the EC needs as much as ever to prove that it is a club worth joining. The resolve displayed in Scotland must be translated into action. This applies not only to the task of making the concept of "subsidiarity" both efficient, and meaningful to ordinary people. The EC must also ensure a positive outcome to the Gatt talks, a subject left off the Edinburgh agenda.

## Currency disorder

On the economic front, the path towards economic and monetary union (Emu) now looks less clear than a year ago. But this increases the urgency for the EC to focus efforts on attacking the causes of the instability which forced Britain and Italy's departure from the exchange rate mechanism. Both in tackling currency disorder and in curing the Community's most pressing difficulty - lack of economic growth - there can be few grounds for optimism unless Germany rectifies disequilibrium caused by mismanagement of its economic reunification. As long as this primary EC fault line

remains, economic initiatives such as the infrastructure programme agreed in Edinburgh will be little more than palliatives.

With the formal entry into operation of the "single market" next month, the EC has put into place measures which represent potentially the best long-term way of allowing the Community to flourish. But without greater confidence in shorter-term economic prospects - which would be improved by lower German interest rates - the 1993 programme will yield less than optimal results. Without a resumption of growth, the EC's budgetary problems, patched up in spite of histrionics from Mr Felipe Gonzalez, may resurface. The Emu convergence targets will be still more difficult to achieve. Most important of all, the EC's failure to make a real contribution to eastern European revival will start to become not merely embarrassing but, conceivably, a disaster.

## No schism

If the Edinburgh meeting has re-established realism about the pace and scope of the Maastricht journey towards closer integration, it has also resolved some doubts about who will be taking part. France and Germany have expended much rhetoric about the need to prevent the Community from being over-influenced by countries most sceptical about the Maastricht process. It is clear that the move to Emu can only take place at two, or several speeds. Yet Edinburgh demonstrated that there will be no fundamental schism. Denmark achieved its sought-after exemptions from pivotal parts of Maastricht, while Britain withstood pressure to agree a July 1993 ultimatum for securing the treaty's ratification.

Since it can reasonably be assumed that both Denmark and the UK will indeed ratify the treaty next year, the overall agenda for Community policies will continue to be set by the Twelve, augmented by members of the European Free Trade Association (Efta) from the mid-1990s onwards. The treaty is far from perfect. But in setting out a framework for more effective co-operation, it represents the EC's best opportunity for enacting policies increasing stability and prosperity across the whole of Europe.

# Keeping London on the move

TO STEP into a central London restaurant around noon these days is to be greeted with a forlorn sight: that of bored executives sitting unaccommodated alone, picking at their bread rolls and sipping fizzy water. It is not that they cannot afford a decent meal. They have simply forgotten the extent to which recession has eased the traffic jams, and arrived embarrassingly early for lunch.

It will not last. Recession may have tempered the demand for transport in London, but in due course an upturn will rekindle the lingering sense of crisis about the inadequacy of the capital's transport. If London is to maintain its international competitive position, the government needs to think urgently about how it is going to cope with the strains on its infrastructure.

Unfortunately, it shows little inclination to do so. True, it has fulfilled its manifesto commitment to appoint a minister with special responsibility for London transport, but it turns out to have been a hollow gesture. The minister's role seems mainly to consist of being visible and well-intentioned: he lacks the budget, staff and powers to have any real clout, and strategy remains a dirty word.

Thus, the government's policies for London are a hotch-potch. Car ownership in the capital is forecast to grow by nearly 50 per cent in less than 20 years, yet badly-needed investment in the public transport alternatives - suburban rail services, buses and the Underground - is being cut. Urban clearways, known as red routes, are planned to speed vehicles into central London, but there is no parking policy to deal with them once they get there. In theory, red routes should speed up buses, too, but the buses are to be privatised and deregulated, in all probability leading to the sort of free-for-all that has already brought disruption to some other British cities.

## Jubilee Line

At least, the government can say, it has authorised construction of one public transport project: the £1.5bn Jubilee Line extension. But this decision, too, smacks of incoherence at a time when the government is cutting a third off the £750m-a-year investment budget for the rest of the Underground.

While it is possible to make a case for the Jubilee Line scheme for the regenerative effect it will have on London's Docklands, it is less easy to do so if it means leaving the rest of the Underground to deteriorate into an ever-worsening state of decrepitude. It is the transport equivalent of adding a luxurious extension to a house that needs a new roof.

Given the constraints on public spending, it is clear that any transport policy for London needs not only to be coherent, but to identify new ways of funding investment. One option is higher fares, but that would risk putting more traffic on the roads and raising labour costs. Besides, passengers alone should not be expected to meet the cost of the community-wide benefits conferred by good public transport, such as congestion relief, environmental gains and increased property values.

## Road pricing

The logical alternative is to attempt to capture those community-wide benefits by other means. Until recently, two-thirds of London Transport's investment was paid for out of a levy on London rates, but the linkage was severed in 1990 to soften the introduction of the community charge. It now seems sensible to restore the connection, at least in the case of businesses. The Confederation of British Industry is today expected to urge more investment in the capital's transport. The government might test the CBI's resolve by asking its London members to make good London Transport's £250m investment shortfall with a 10 per cent transport levy on the uniform business rate.

Ultimately, road pricing may offer a solution to London's transport problems by simultaneously suppressing traffic growth and yielding funds for transport investment. But London cannot afford to wait that long: it needs better transport now. The government has rejected the idea of London-wide political structures, preferring to exercise direct rule over the capital's affairs from Whitehall. It must now start generating confidence that it has an understanding of the capital's transport problems and face up to the responsibility for putting them right.

The Edinburgh summit will go down as the moment when the European Community pulled itself together and put its house in order.

After months of drift and indecision, EC leaders struck a series of deals which offer a reasonable prospect of saving the Maastricht treaty, thus ending the political crisis which has gripped the Community since Denmark rejected the treaty last June.

Even more important, the week-end agreement between the Twelve on the EC budget and on enlargement talks with Austria, Finland, Sweden and, later, Norway, provides a second, perhaps more secure framework for the Community's development to 2000.

"We have solved the Rubik's cube that was laid before us," declared Mr John Major, UK prime minister, shortly before midnight on Saturday in the packed media centre at Meadowbank sports centre. Other EC officials agreed that the much-derided UK presidency had indeed pulled off a high-stakes gamble. "By making everything interdependent," said a Brussels official, "the British turned Edinburgh into an all-or-nothing summit."

In the post-summit afterglow, it was easy to overlook that success had come at a price. The legally-binding exemptions from Maastricht obtained by Denmark go to the heart of the EC's ambitions as agreed in the treaty signed in December 1991, notably the goal of a single European currency by 2000 and a common EC defence policy.

Nor did the summiters tackle in a serious fashion the broader crisis in the EC. A continental recession is spreading into Germany. The exchange rate mechanism (ERM) continues to be plagued by instability. Beyond its borders, the EC faces the threat of the Yugoslav crisis turning into a wider Balkan war. A sobering reminder of this came on the eve of the summit when 1m Greeks took to the streets in Athens to protest against possible EC recognition of the former Yugoslav republic of Macedonia.

The Macedonia issue underlines the limits of the EC's powers, especially in dealing with a recalcitrant member, in this case Greece. Faced with the Greek government's opposition to possible Community recognition of Macedonia, EC leaders pledged a "substantial" package of aid to the former Yugoslav republic and held out the promise of World Bank and International Monetary Fund assistance; but they ducked the fundamental issue.

Yet with some justification, Mr Major can argue that, without a settlement of the EC's internal problems, there is little prospect of turning the Community's attention outward. The breadth of agreements reached at Edinburgh give the EC a genuine chance of a "relaunch" next year when, in a comic twist of fate, the UK hands over the presidency of the EC to Denmark.

The Danes represented the most pressing issue at Edinburgh: how to resolve Danish demands for options on Maastricht, without reopening the treaty or requiring ratification of a new treaty by member states. Without an agreement on the Danish issue, the summit was doomed to failure.

Given the legal acrobatics involved in finding a solution, EC leaders strove to convince observers that they had made the Danes sweat. Yet the outcome left Denmark with all of its substantive demands intact, including exemptions from the third phase of monetary union when the Twelve are

The Edinburgh summit's successful conclusion has put the Community back on track, writes Lionel Barber

# The Maastricht journey resumes



Deal-makers: UK's John Major, left, Spain's Felipe Gonzalez, top right, and Chancellor Helmut Kohl

supposed to move to fixed exchange rates by 1999 at the latest, a common EC defence policy, common EC citizenship, and co-operation on justice and immigration matters at a Community rather than inter-governmental level.

The Danish deal was made even more palatable by some useful practical steps on making EC decision-making more open and the bureaucracy less intrusive. In future, votes in the Council of Ministers will be published and some policy debates will be open to the public. The European Commission has also agreed to exercise more restraint in proposing legislation; but a promised list of EC directives for scrapping fell far short of British hopes.

Foreign diplomats in Edinburgh said the Danish deal looked like the EC was turning into a Community à la carte, where members can pick and choose what they like. Yet there is a precedent: a year ago the UK rejected Maastricht's social policy chapter and reserved its right to take part in a common currency.

Others took a more charitable view with a topical comparison with the royal marriage. "It's like Prince Charles and Diana," said a German EC-watcher. "Denmark has chosen the path of separation but not divorce."

Whatever its legal niceties, the Danish package comes down to raw political expediency: how to ensure that the Danish people approve a

second referendum on Maastricht, at the end of April or early May. Or as one UK official put it: "The goal of the summit is to save Maastricht, irrespective of its contents."

Both Mr Poul Schlüter, the Danish prime minister, and Mr Major pointed out that without ratification of Maastricht by all Twelve there can be no treaty; indeed, the British prime minister refused to be drawn on his own ratification timetable beyond a promise to complete "hard on the heels" of the Danish vote.

The Anglo-Danish shilly-shallying on Maastricht plainly infuriated most EC leaders. Over lunch on Friday, Belgium took the lead in warning Denmark and Britain that they could not stop the "Ten pressing ahead" with the substance of Maastricht. Virtually all the other leaders joined in; but no one ventured to predict what will happen if the Danes say No once again next spring.

There is considerably more certainty about the EC budget. The summit's seven-year budget deal is a big achievement because it removes the one issue always guaranteed to fray tempers and produce political stalemate: money.

The Edinburgh package allows the Community to plan for the future with a degree of security, just as it did in February 1988 when, once again, German generosity

broke the logjam. Mr Jacques Delors, European Commission president who before Edinburgh rallied against the risk of creating an EC run on the cheap, appeared satisfied. "I have got 85 per cent of what I wanted."

The budget deal is a compromise between north and south - or between the rich and poor members of the EC. But by contrast with 1988, Chancellor Kohl on this occasion has become a reluctant paymaster. Burdened with the costs of unification, Mr Kohl insisted that the Twelve commit themselves to begin enlargement negotiations with Austria, Finland and Sweden early next year. The accession of the richer northern states by 1996 fits the German goal of spreading the budget load.

For Spain, which led the fight for more development funds, the deal offers firm numbers on so-called structural and cohesion funds funnelled to the poorer members of the Community, including Greece, Ireland and Portugal. In real terms, Spain can claim that it has won a doubling of these funds by 2000. In effect, the increase in funds is the "bribe" for southern members to pursue the budgetary discipline necessary to meet the strict criteria to qualify for European monetary union (Emu).

Yet the question is whether the goal of Emu is still feasible. The summit's limited agenda was again underlined by the leaders' unwilling-

ness to discuss the turbulence in the exchange rate mechanism which has plagued the system since Denmark's No vote in June cast doubt on monetary union.

Instead, EC finance ministers agreed to a modest series of measures aimed at stimulating growth in the Community, mainly through co-ordinated measures aimed at boosting capital spending in west and east Europe.

The European Investment Bank is to set up a temporary lending facility of Ecu5bn (£4.04bn) to finance roads and telecommunications projects with more flexible lending criteria. The summit also agreed to set up a new European Investment Fund with Ecu2bn of EIB capital to provide guarantees to small and medium-sized businesses. But UK claims that the combination would stimulate private finance for Ecu2bn worth of projects look far-fetched.

Cynics might dismiss the growth package as a confidence trick. But confidence is just what the Community needs after the buffeting of recent months. This is why the enlargement talks with the Austrians and Scandinavians are viewed as so important by Mr Delors, Chancellor Kohl, Mr Major and President Francois Mitterrand.

Besides persuading Denmark that it cannot afford to be left out of the EC, the enlargement talks are also aimed at recapturing the dynamism of the late-1980s when the EC embarked on its goal of a single integrated market by the end of 1992 and a common European currency by 2000.

Yet the lesson of the summit is that, while almost every member state believes enlargement is a good thing, they each have a slightly different impression of what it will mean for the EC as a whole.

Late on Friday night, Chancellor Kohl spoke expansively of a Community stretching eastwards to include Poland, Hungary, the Czech and Slovak Republics, and the Baltic states - but not Romania, Bulgaria, Turkey or the Balkans. For Mr Kohl, enlargement should help the EC absorb the German giant at the centre of Europe while also giving the Community the resources to become an equal partner with the US and Japan.

Britain, too, shares the desire for a wider EC. But the UK is far more wary of loose German talk of "political union" and is deeply sceptical about the EC's chances of pulling off Emu. France - pulled along by Germany - now appears reconciled to the fact that the Community must first widen its membership before tackling the problem of "deepening" EC institutions.

The institutional problems raised by an enlarged Community will not go away. More members surely means more majority voting in the Council of Ministers; it may mean, too, a greater role for the European Parliament; it could even require a new EC constitution.

The uneasy compromise reached at Maastricht - a mix of intergovernmental co-operation and tentative federalism - will have to be revisited, most likely at a conference to review the treaty in 1996.

For the moment, Mr Major is savouring the satisfaction of a job well done. Criticism of the UK presidency was, in hindsight, overdone. Thanks to a combination of clever legal drafting, meticulous preparation on the budget, and a little help from Chancellor Kohl and President Mitterrand, Mr Major can rightly claim that the EC is back on track.

## Samuel Brittan

# Boy who cried 'shoots'



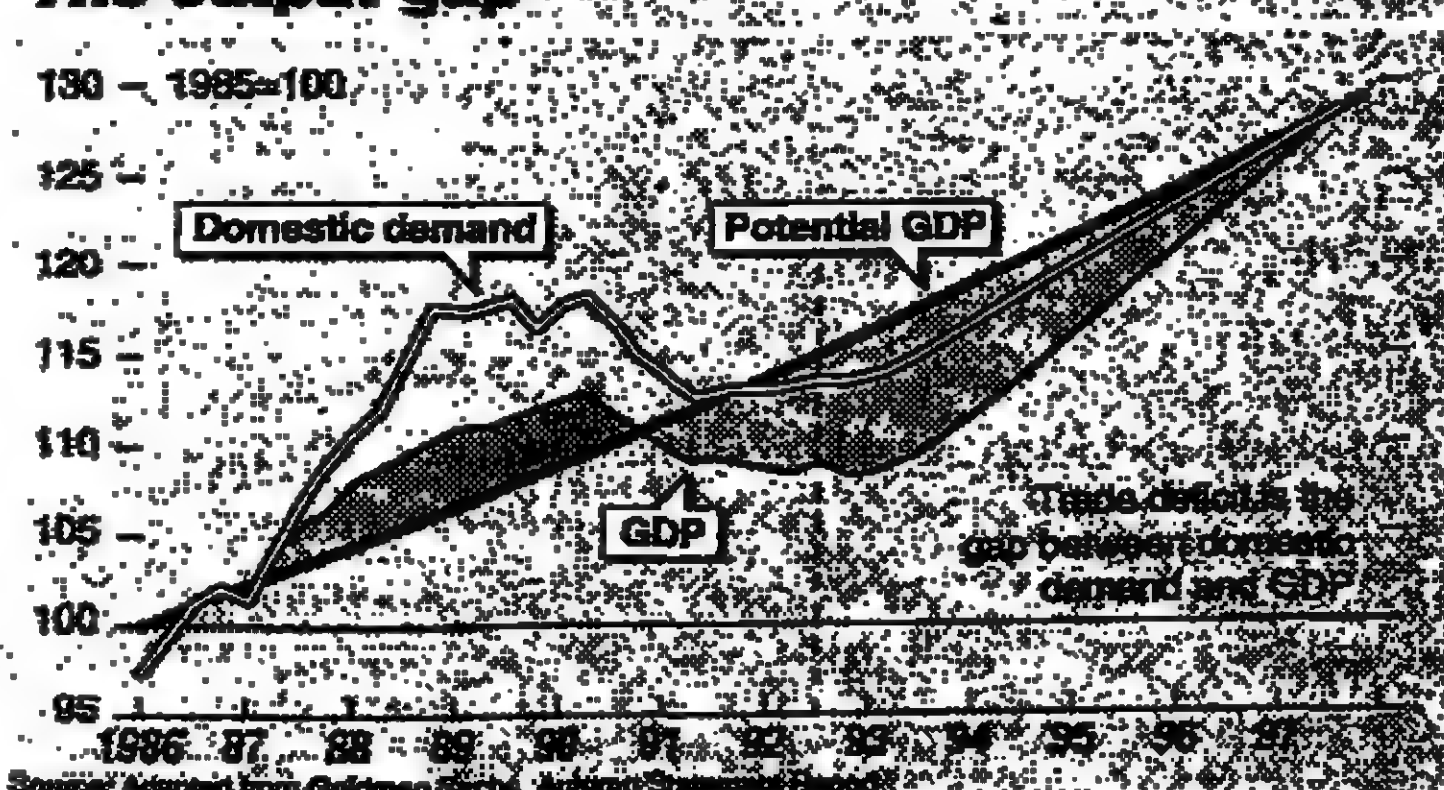
We all know the story of the boy who cried "wolf" so many times that when there really was a wolf no one believed him. But what do we call his cousin, who announced imaginary good news so frequently that he, too, was disbelieved when right? The best I can suggest is "the boy who cried green shoots".

The long-awaited Treasury monthly report, published last Thursday, is not written by either kind of boy. But it contains a far more comprehensive set of indicators than anything published on as timely a basis by academic institutions, private analysts or the press. The value of the report is as an example of both the economies of scale and of a public good. Government economists and statisticians can provide a more comprehensive service than almost anyone else and it is absurd that publication has been so long delayed.

The most important uncertainty on the monetary and inflation front is whether the depreciation of sterling will pass through into domestic prices in the next year or two - thus devaluing the pound in your pocket - or whether the depressed state of demand and activity will stop the pass-through. Sterling's departure from the ERM is far too recent for even a tentative answer to appear in the latest indicators.

The December Treasury report is thus more interesting on the real economy. The impression given is of an economy that has bottomed out in terms of real demand and output. There are a few indicators such as cash balances (M0), corporate borrowing and retail sales suggesting something a bit better. But wise people will not shout "green shoots" until they have seen them springing out of the ground.

## The output gap



One analyst complained that the monthly report did not even restate the government's own goals and objectives. But that is to assume that "the government" knows them itself. For instance, is the objective of macroeconomic policy confined to keeping inflation within the 1 to 4 per cent band explained by the chancellor to the Treasury committee immediately after departure from the ERM? And is the talk of "going for growth" just mood music? Or are there output objectives as well? We have not a clue.

My main technical criticism of the report is that there is almost nothing that enables one to evaluate the gap between output and capacity, either in terms of physical capacity or the margin of unemployed labour. This cannot be right. An x per cent growth of output must mean something different in the aftermath of a deep slump to what it means when production is pressing against the limits of capacity. I have tried to remedy the deficiency by adapting a Goldman Sachs chart. This suggests at first sight that the gap between output and capacity is now so large that a hefty kick-start is indicated.

In the Goldman Sachs version,

however, the greater part of the output shortfall appears to be due not to depressed home demand but to the trade deficit. In other words, recession conditions are due mainly to the diversion of British demand into imports and the export slowdown.

My own suspicion is that part of the overseas gap is temporary, representing depressed international conditions, especially in Europe. Part represents remaining deficiencies in the trade statistics. Another part may be remedied by sterling's depreciation, if that is not completely eroded by domestic inflation. Yet a further part may be offset by sustainable inward investment and thus allowed to run.

In addition, the level of usable capacity may be less than suggested by the trend line. In that case the recession gap that can be safely closed either by policy measures or by spontaneous recovery is that much smaller. Such barely articulated ideas may help to rationalise the official penchant for a modest initial recovery. But without some concept of capacity output and its trend, even the best of economic reports is just a string of numbers to be tagged at the back of executive summaries.

## FT CONFERENCES

### EUROPE - THE WAY FORWARD

Paris, 10 & 11 February  
This major business forum, arranged by the Financial Times in association with Les Echos, will focus on the way forward for Europe. The conference takes place at a critical moment in the development of the European Community, in the aftermath of the monetary crisis and just after the January '93 deadline for the opening of the Single Market. Mr Pierre Bérégovoy, Prime Minister of France, Dr Hans Tietmeyer, Deputy Governor of the Deutsche Bundesbank, Mr Dominique Strauss-Kahn, French Minister for Industry and Foreign Trade and Mr Arthur Dunkel, Director-General of GATT, are among the eminent panel of speakers who will share their views on a whole series of questions on Europe's future.

### THE LONDON MOTOR CONFERENCE

London, 22 February  
The aim of this year's meeting is to discuss the challenges and opportunities facing the European motor manufacturing and components industry and review developments in distribution and franchising. Speakers include: Mr Bill Ebbett, Chairman and Managing Director, Vauxhall Motors Limited; Mr John Tomes, Group Managing Director of Rover Group Ltd; Mr Trevor Bonner, Managing Director of Automotive Drive Line Systems Division at GKN plc and Professor Gerald Frys, OBE, Professor of Motor Industry Economics at Cardiff Business School.

### CABLE & SATELLITE BROADCASTING

London, 23 & 24 February  
This Financial Times eleventh annual conference takes place at one of the most dramatic moments in the development of the new media. Multi-channel television in the UK and other European countries is beginning to become a major business. Across the world new international television channels are changing the face of the media. This two-day meeting brings together a distinguished panel of speakers to review these important issues; the state of progress of the new television channels, their effect on the conventional television companies and the associated business, investment and regulatory issues. Speakers include: Sir George Russell of the Independent Television Commission; Sir Bryan Garsberg of the Office of Fair Trading; Mr John Birt of the BBC; Dr Burkhard Neuwirth of Deutsche Welle; Dr Pierre Moray of Societe Européenne des Satellites and Mr William H Roddy of MTV Europe.

### TRANSPORT IN EUROPE - CREATING THE INFRASTRUCTURE FOR THE FUTURE

London, 2 & 3 March  
The conference will examine a broad range of policy issues for identifying and harmonising transport in Europe, financing infrastructure improvements and the development of pan-European integrated transport systems. Speakers include: The Rt Hon John MacGregor OBE, MP, UK Secretary of State for Transport; Prof Dr Günther Krause, German Federal Minister of Transport; Mr Copel-Farrar of the UN Economic Committee for Europe; Mr John Welby of the British Railways Board; Mr Pat Trautmann of the European Investment Bank; Mr Günther Henrich of the Austrian Ministry of Public Economy and Transport; Dr André Tixier of the Hungarian Ministry of Transport; Mr Christoph Gensert of Eurotunnel and Dr Adrian van Doornburg of Deutsche Lufthansa.

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الشرق الأوسط



# Menu to make a leaner and fitter bank

Barclays faces some awkward choices if it is to regain its position as Britain's most profitable high street bank, writes John Gapper

Just for now, while its headquarters in the City of London are re-built, and its directors struggle to restore its battered reputation, Barclays Bank has taken up residence in the 1810 Johnson Smirke building at the old Royal Mint. Visitors to the grandest high street bank in Britain are still served lunch on fine china, and wine in cut glass. But the main course is humble pie.

"We are not doing well, we are not giving our shareholders value, and we have got to do better," says Mr Andrew Buxton, the chief executive. "We must learn from the mistakes of the past, and improve substantially," says Mr Alastair Robinson, director of the banking division. "I don't know if we were dumber than others, but we were certainly dumb," says Mr Joseph DeFeo, director of service businesses.

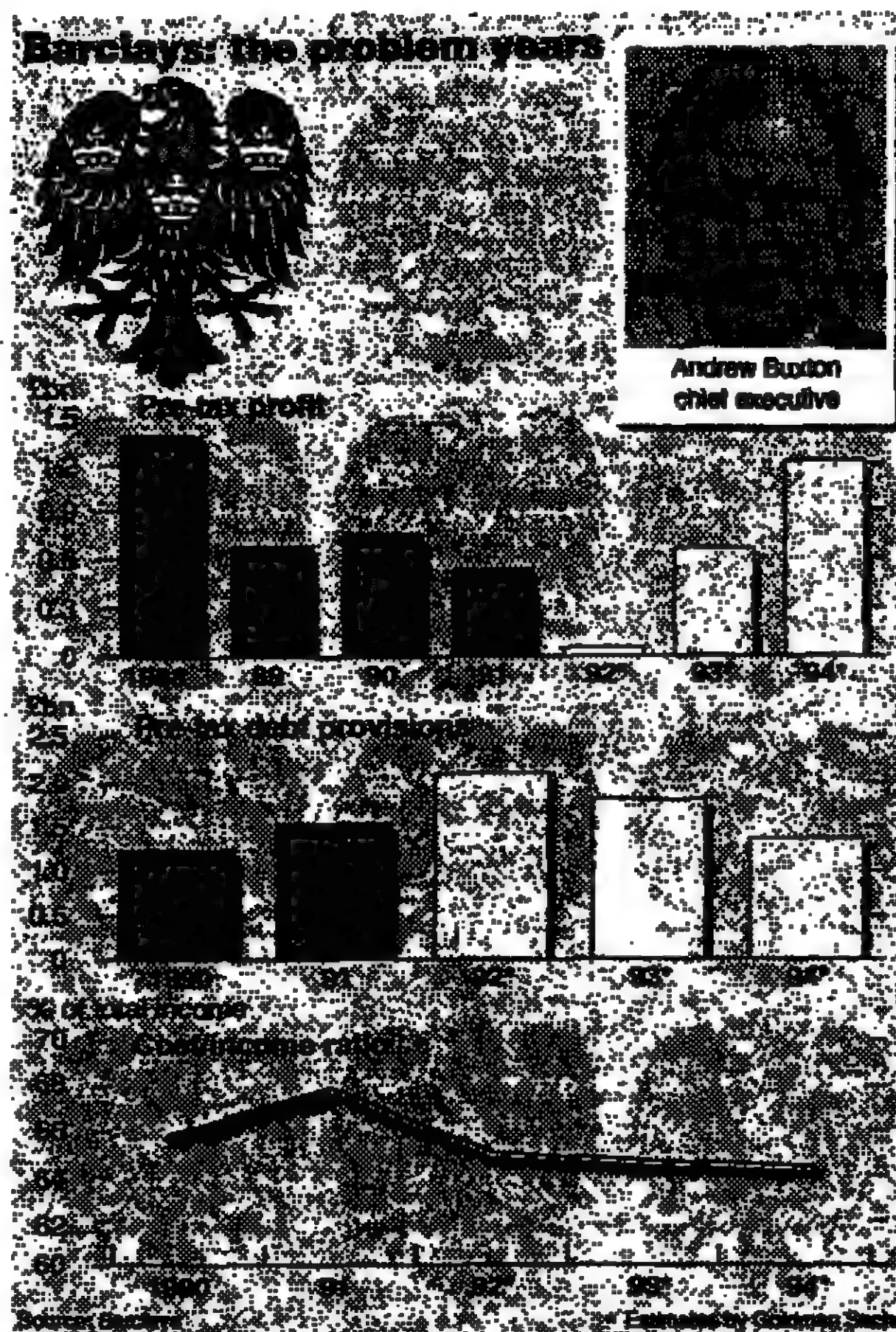
This public hand-wringing is new for Barclays. While the other high street banks went through troubles in the past five years, Barclays seemed to stand above the fray. Until last year, it was Britain's most profitable bank - making pre-tax profits of £3.9bn in 1988 - as well as the largest by asset size. But in the past year, it has been beset by problems. It is likely to make only a small profit this year - possibly even a loss - because of bad debt provisions estimated by analysts at about £2bn.

This presents the bank with an awkward choice. If it cuts the final dividend, it risks alienating shareholders who backed a £22m rights issue in 1988. This was the capital used for an ill-fated expansion in leading, including a rise in its £2.5bn portfolio of property loans. Yet maintaining the dividend - at a cost of some £12m - would weaken its capital base.

Barclays has tried to signal a fresh start by appointing Mr Buxton as chairman and chief executive, following Sir John Quinlan's retirement this month. But the move has provoked controversy over whether Mr Buxton, the managing director under Sir John, should combine the roles. After meeting unhappy institutional investors, Mr Buxton said last week that the roles would be split "in the long term".

Mr Buxton is pleading for time. He knows Barclays faces renewed criticism when the full-year results are published in March. He believes a firm improvement in profitability will only emerge in 1994, with next year being a time of "recovery".

But he has set an ambitious long-term target: 15 per cent post-tax return on equity



within five years. This would require pre-tax profits of £1.4bn at current equity levels.

Senior Barclays managers want to do three things to reverse the bank's fortunes. First, to draw a line under the past; second, to implement tougher operating methods; third, to put in place a coherent strategy for the future. Mr DeFeo believes if they achieve these, they deserve a reprieve. But even he accepts that clemency cannot last forever. If results do not improve in time, "I would sack us all, and rightly so," he says.

**Barclays is likely to make a small profit - possibly even a loss - because of bad debt provisions of about £2bn**

The degree to which Barclays achieves these aims will depend on an old tension within the bank: how rapidly it should leave the past behind. The past exerts a strong pull. Barclays was formed by a merger of local family banks in 1894, and members of the families have traditionally formed its top management. Although Sir John was not a member of the families, Mr Buxton's family was involved with the Overseas and Gurney Bank, which was absorbed by Barclays.

This is one reason why the

bank's first aim of drawing a line under the past has proved hard. Mr Buxton's association with family control has exacerbated the dispute over his appointment as both chairman and chief executive. In addition, the bank is still dealing with its past lending. One example is Imry, the struggling property company, to which the bank lent £40m. Barclays has already made one provision of £140m, and is expected to disclose a further one of at least £100m shortly.

Its second aim is achieving more efficient operations. In

the bank's tighter lending policy. "It is important to re-establish relationships of trust with our customers," he says. Mr DeFeo says it will take up to six years to install the technology needed to improve analysis of loan risks and provide 24-hour telephone banking.

In investment banking, greater efficiency means being selective about the type of business it seeks. Mr David Band, chief executive of the BZW investment banking division, says BZW wants to seek cross-border business where it can offer a competitive advantage. "There is no point in throwing money at everything. We have had a blunderbuss approach, and we must aim more carefully with a rifle," he says.

The third aim, of establishing a coherent future strategy, is probably hardest of all. Mr Buxton has drawn up a five-year plan, with the aim of making Barclays "a European bank with global reach". What this means is not clear. He wants to develop its 50 branches in France - acquired through buying L'Europeenne de Banques in 1988 - and 220 branches in Spain. Yet in Germany, it will achieve branch banking.

The emphasis on international expansion raises the question of balance between branch and investment banking. Mr DeFeo says Barclays must reduce its reliance on UK branch banking because the difficulty of reliable risk management means its earnings will otherwise be "jerked around in huge cycles" with the economy. In the US, Barclays has decided to concentrate on investment banking after making losses on its branch network.

In healthier times, the balance might be achieved through competition between the two divisions for capital depending on which made a greater return. Yet as Mr Band says, this is hardly possible at the moment because "on recent results, you would not allocate capital to anyone". At least for a few years, the balance will have to be decided more by directors' judgement than by figures.

For the moment, the main figure that concerns directors is Mr Buxton's target of 15 per cent post-tax return on equity. Analysts and directors agree there is virtually no chance of achieving that next year, while this year's profit will be puny at best. It is likely to be some time yet before there can be a change on the lunch menu at the Johnson Smirke building.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Money not well spent

From Mr Allan Black

Sir, I was surprised to read that, in spite of low profit, Pilkington decided to maintain its interim dividend, funded largely from reserves ("Pilkington raises reserves for dividend", December 11).

It strikes me that the short-term interests of the shareholders are being met to their long-term disadvantage. As national officer of the GMB union representing many Pilkington employees, I cannot believe that Pilkington reserves could not have been better spent on research and development to maintain its technological lead, on new training initiatives to increase the skills of the workforce, on capital investment to replace some of the jobs the company has lost or plans to lose, or on a mixture of all three.

From a leading company that had a reputation for planning ahead and looking after the interests of its employees this seems to me to be the worst kind of short-termism.

Allan Black  
GMB  
22-24 Worpole Road,  
London SW19 4DD

### Low gas prices a loss leader?

From Mr Roger Backhouse

Sir, The report by Prof Stephen Littlechild, the electricity regulator, into the "dash for gas" misses one important possibility. It is common practice for a new supplier aiming to establish a new market to lower prices as a loss leader. The gas industry is offering lower prices now but is unlikely to be able to sustain them. If this is the effect of knocking most of the coal-based competition so much the better for the new supplier. However, the long-term effect will be to increase both electricity and gas prices.

There is no sign Prof Littlechild has taken this into account. His evidence should therefore be treated with considerable caution.

Roger Backhouse,  
112 Thorold Road,  
Riford, Essex IG1 4EY

### Analysis of monetary union in danger of missing real benefits

From Mr Maximilian Cartellieri

Sir, It is disappointing to witness how the debate on European monetary union risks being reduced to an exchange of non-objective views by the nostalgic representatives of one or another conviction.

It simply does not do justice to the facts for Prof Martin Feldstein to reduce the gains to the UK from monetary union to those arising from the fact that a single currency would "simplify UK business dealings within the EC" (Personal View, "The ultimate opt-out", December 9). Or to assert that those "are small in comparison with the higher average cyclical unemployment in Britain that would result from the loss of a national monetary policy and of a currency that responds to market forces to maintain competitiveness".

First, even supporters of Emu recognise that savings from transactions costs under

Emu would amount to, at most, 1.5 per cent of GDP. But this is beside the point, because these are a by-product rather than an objective of Emu. The most important benefit for UK business is the removal of long-term exchange rate uncertainty, which under the current system of floating rates increases the risks of doing business in EC countries and for which forward facilities barely exist at all.

The main benefit for the UK economy as a whole is the prospect of escaping from the inflationary boom-and-bust cycles that have characterised economic policy in the past. The larger credibility of an independent European central bank makes it likely that this goal can be reached at lower cost than is possible under present arrangements.

Prof Feldstein claims that UK unemployment would increase as a result of the loss of national monetary policy.

Why should it? It is well known that the UK is characterised by real-wage rigidity, and that the temporary gains in competitiveness from devaluation are quickly eroded through higher inflation. Britain cannot price itself back into world markets simply by devaluing.

Prof Feldstein's other claim, namely that under Emu monetary policy might be determined by politicians and not by central bankers, has even less factual basis. The ECB will be more independent than the Bank of England is at present - if he fears politically motivated interventions into monetary policy, the ECB is the best way to reduce this danger.

Weighing up publicly the pros and cons of a big decision such as Emu is crucial - but it is time that the debate is again based on facts and analyses.

Maximilian Cartellieri,  
41 Palace Gardens Terrace,  
London W8 4SB

### Simpler method of assessing council tax

From Mr James R Adams

Sir, Mr Bradman (Letters, December 5) underestimates the problems householders face with the (inequity of the council tax, and exaggerates the steps needed to improve it.

The fact that the date for national valuation is April 1, 1991 for everyone does not mean that everyone faces the same prospect of being in the wrong band. Since that date the proportion of properties in the Granada TV region falling

into the A band has declined from 41.8 to 35.1 per cent; in the Thames TV region, the proportion has increased from 10.7 to 13.4 per cent. Even within the same area different types of property have behaved differently in price terms.

The simplest way of assessing property tax, as we pointed out to the Treasury at the time, is to proportion payments to the number of rooms in the dwelling. This can readily be self-assessed (and

would have saved millions of pounds of tax-payers' money had it been) and checked, and will not change unless the owner wishes it to. It has justice in that the over-crowded pay less than those with greater amenity, while most people will pay more or less in proportion to their demands on the services provided.

James R Adams,  
chairman, Adams Residential  
Property Index  
5 Langley Street, London WC2

### Realism needed for UK leisure training

From Mrs Janet Salmon

Sir, The leisure industry employs 2.4m people and the tourism industry alone earned £7.1bn in foreign exchange in 1991. Its ability to provide a top-class service and a quality product is important to the economic health of the country.

The survey on progress towards the UK training targets for national vocational qualifications (NVQs) in the leisure industry, showed that the

training target of 50 per cent of the workforce to be working towards NVQ level 3 by 1996 is optimistic, based on the present progress.

The Confederation of British Industry and the government should consider setting more realistic and achievable targets. The structure for the provision of NVQs is complex and overlapping and consideration should be given to reducing the number of awarding bodies and industry lead bodies. Total

quality management and national vocational qualifications are "synergistic" approaches which need to fall under one, rather than two government departments.

National vocational qualifications must be implemented in a streamlined and cost effective manner, if Britain's leisure industry is to compete with Europe.

Janet Salmon,  
20 Amherst Road,  
Basing, London W13 8ND

## OBSERVER

### Piris tops the summit

■ If there was ever a lawyer-of-the-year award then Jean-Claude Piris, head of the legal service at the European Council, deserves it. He is the unsung hero of the Edinburgh summit for the way he helped devise a solution to Denmark's demands for legally binding exemptions to the Maastricht treaty.

A graduate of the elite Ecole Nationale d'Administration, the 49-year-old Piris is a rare breed of international civil servant. A lawyer by training, he also possesses a keen political instinct as shown by his conviction that, in the end, the Danish question was always a "matter of presentation".

His political nose, well-honed by stints in the UN and the OECD as well as the Brussels bureaucracy, proved indispensable as he joined lawyers from the British Foreign Office in finding a solution to the Danish problem: how to meet Copenhagen's demands for legally-binding opt-outs from Maastricht without re-opening the treaty or triggering re-ratification in member states.

Before and during the summit, Piris faced what amounted to a Spanish inquisition, first from foreign ministers, and then from heads of government on whether his wording undermined the letter and spirit of the Maastricht treaty. In the end, the agreement reached on Saturday drew praise all round. EC president Jacques Delors, described it as "extremely subtle", and Danish officials said it was "devilishly clever".

Piris, who speaks fluent English, had a broad idea of how to resolve the Danish

question as early as last September. But it was only in the final weeks before the Edinburgh summit that the UK presidency called upon Piris. Like the battle of Waterloo, it was a close run thing.

### Damage control

■ The Chicago Board of Trade couldn't have asked for better weather for the launch of its new catastrophe insurance futures contracts. As trading began on Friday, gale force winds, rain, and flooding brought New York City to a halt and battered the East coast.

Unfortunately, the first day's trading volume was virtually non-existent because the New Jersey-based property claims reporting service, that the CBOT relies upon to keep traders informed of estimated damages, was put out of action by mother nature.

### Dr Who?

■ Interesting to see whether the halo of Dr Gwyn Jones, the soon to depart chairman of the Welsh Development Agency, survives in fact after today's grilling by the Commons Public Accounts Committee.

The 44-year-old Jones, one of the young thrusts of Welsh business, has done a good job raising the profile of the WDA and attracting lots of well known foreign companies to invest in the valleys. But the National Audit Office, the independent official watchdog, has taken his agency to task for the size of its golden handshakes - roughly a quarter of the staff have been made redundant over the last three years - and its policy of free petrol for WDA bosses. The irregularities were not big



"It can't be that difficult if John Major can do it"

enough to cause the WDA's accounts to be qualified, but they have pricked the interest of the PAC.

For a man occasionally mentioned as a future boss of the Confederation of British Industry or even chairman of the BBC, Jones needs to prove to the PAC that he is just as much at home with the fine print as he is with the big picture.

### Chatting up

■ The men in charge of repairing the reputations of two much-maligned public figures were working overtime yesterday. First on the phone was Colin Byrne, the Labour party's former chief press officer now in the Prince of Wales's employ.

Had Observer noticed that Donald Keough, president of Coca-Cola, was among the corporate chieftains backing the Prince of Wales Business Leaders Forum? Indeed, it says something for the POW's growing international pulling power if his forum can recruit top executives like Keough and Volkswagen chairman

Carl Hahn to pontificate on corporate social responsibility in the latest edition of First magazine. In the past the Prince's choice of business leaders seems to have been driven more by people who want to know him, rather than people he should get to know.

Observer's second call of the day was from an aide to Amstrad's Alan Sugar pointing out that his boss had just opened the £300,000 Sugar wing of an old people's home in Essex.

Well done Alan, but in terms of corporate good deeds, it falls well short of Gerald Hanson's generally unpublished largesse.

### Tempus Fugit

■ It is corporate diary time again and a couple of US diary dates catch the eye.

National Condom Month falls in February, and Global Understanding Day on March 26 should be fruitful. Americans are exhorted to spend April 2-4 soberly, as it's Alcohol-Free Weekend. And get the brain clear for April - Mathematics Education Month. Can't wait.

### Gunplay

■ Now for a quiz about gunfighters of the old American West. Answers by mail, or fax to 071-873 3886 - not telephone, please - by noon on Friday when the first top-scoring entry out of the hat will win a bottle of malt whisky.

1 Name The Magnificent Seven.  
2 Which western gunfighter ended his working life as sports editor of the New York Morning Telegraph?  
3 Which one was married, albeit briefly, to Mrs Thatcher?  
4 Which rival did he dispose of and so win her affections?

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# FINANCIAL TIMES

Monday December 14 1992

**TRAFALGAR HOUSE**  
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Into the interior: US Marines take control of a vital airfield at Bell Dogle, 160 km west of the Somali capital of Mogadishu, on Saturday. The Marines will pave the way for the arrival of the 10,000-strong US Army 10th Mountain division. Marines seize airstrip, Page 6

## Kidnap poses security challenge for Israel

By Hugh Carnegie in Jerusalem

THE ISRAELI government was last night facing its severest security challenge since it took power in July following the kidnapping of a paramilitary police officer early yesterday by an Islamic fundamentalist group demanding the release of its jailed leader.

The kidnapping inside Israel of the Border Police sergeant-major came on a weekend when two Palestinians and a soldier were killed as a surge continued of both armed attacks and violent street demonstrations coinciding with last week's fifth anniversary of the intifada, the uprising against Israeli rule in the occupied territories.

The government's handling of the abduction, in the central city of Lod, will be closely scrutinised by the opposition Likud party

and its rightwing allies, which have strongly criticised Mr Yitzhak Rabin, the prime minister, over the recent spate of violence.

Responsibility for the kidnapping was claimed by Qassam, the military wing of the Hamas Islamic fundamentalist movement. It said Sgt-Major Nissim Toledano would be killed if Hamas leader Sheikh Ahmed Yassin, jailed for life in 1991 for ordering the killing of Palestinian collaborators, was not released by 9pm local time last night. The authorities confirmed Sgt-Major Toledano was missing.

In the Gaza Strip, two Palestinians were shot dead and more than 100 injured in clashes with troops yesterday and on Saturday. Another Palestinian was killed in the West Bank.

A soldier also died in an armed ambush, claimed by Qassam,

near the West Bank town of Hebron.

The soldier was the fifth member of the security forces to be shot dead in the past week, compared with 19 killed over the previous five years. There has been a steady rise in the number of armed attacks, mainly by supporters of Hamas, which opposes the current Middle East peace talks.

Mr Moshe Katsav, leader of Likud's parliamentary group, maintained yesterday that there was a direct link between the government's relatively conciliatory stance in the peace talks and the rise in violence.

But Mr Shimon Peres, the foreign minister, said only a political solution would end the violence. "As long as this conflict continues, we will have problems," he said.

## UK drug groups 'will be hit by health reforms'

By Paul Abrahams in London

BRITISH-BASED drug groups stand to lose up to \$450m from National Health Service reforms proposed by the government, the drug industry claims.

Lost sales could cost up to 5,000 jobs in the UK and as much as £400m in lost capital investment, according to the Association of the British Pharmaceutical Industry.

The proposals, announced last month by the Department of Health as part of chancellor Norman Lamont's autumn statement, involve the creation of blacklists of products that will no longer be provided by the NHS on prescription.

The blacklists could cover up to 600 medicines in 10 therapeutic categories and as many as 90m prescriptions a year.

The ABPI yesterday urged the government not to issue the blacklists. It claimed that they were drawn up in spite of undertakings not to extend the original list given in April by Conservative Central Office to US drug groups in the UK.

Exact details of the medicines affected by the measures are yet to be disclosed. However, some groups could lose more than 70 per cent of their NHS revenues.

The government's proposals are part of a Europe-wide drive by governments to control spiralling drug bills. In the UK, NHS drug spending has risen annually by about 12 per cent over the past two years. The industry claims the escalation is due to the ageing population and the government's own programme of increased prescribing of patients.

In 1991, the government spent about £3.2bn on drugs. Previous blacklists for seven therapeutic areas introduced in 1985 saved the NHS £75m during the first year, according to the government. The savings are contested by the ABPI. It argues that many patients were prescribed more potent and expensive treatments instead of simpler and cheaper medicines for which they would have had to pay.

The latest initiative is likely to affect significantly research and development in the 10 therapeutic areas, warned Mr Mike Wallace, managing director of Schering Healthcare, the UK drugs arm of the German group Schering.

He said that if new products were automatically blacklisted it would provide a disincentive to invest in the field.

The 10 therapeutic areas include anti-diarrhoeals, hypnotics and anxiolytics, appetite suppressants, contraceptives, topical anti-rheumatics, as well as treatment for allergic allergic disorders, vaginal and vulval conditions, anaemia, ear and nose illnesses and skin diseases.

The impact of the proposed measures would fall unevenly on UK-based companies.

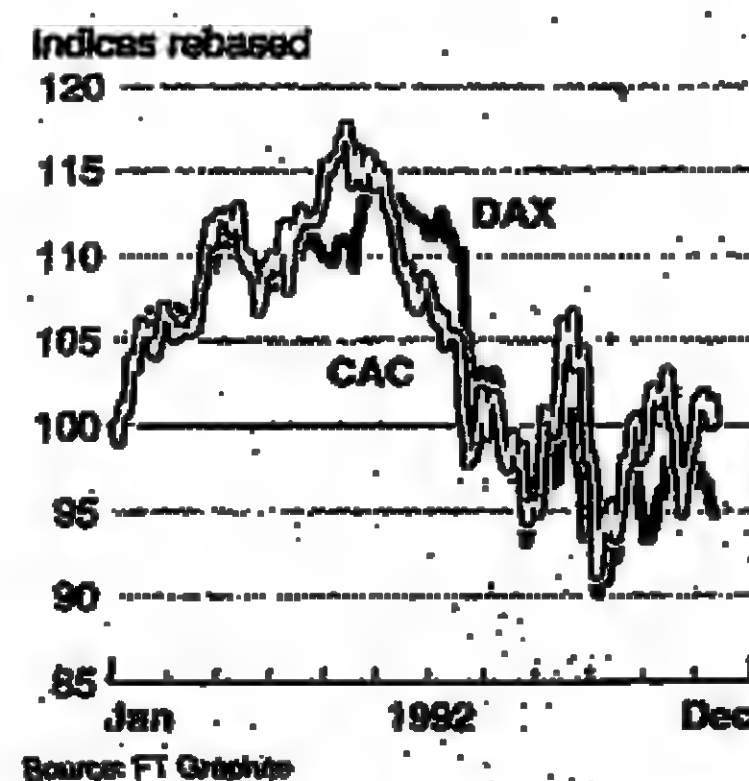
## THE LEX COLUMN

### Testing the gears

Last week's missive on capital instruments from the UK accounting standards board is very much in the mould of Professor Tweedie's revolution. By making clear distinctions between debt, equity and quasi-equity the proposed rules will lead to a proliferation of categories on the face of the balance sheet. The new shape of the profit and loss account has already muddled simple measures of company performance such as earnings. The new rules will do much the same job on gearing.

Financial engineers will doubtless feel deprived of the opportunity to dress up debt as equity. The supply of convertible capital bonds, for example, has notably dried up since the first tentative proposals for a tighter definition of shareholders funds, but the investment bankers should not protest too much. By creating a distinct home for non-equity shares on the face of the balance sheet, the accountants may open other doors.

Companies may be encouraged to issue second tier equity instruments such as preference shares. Banking regulators have long recognised the need for a useful shock-absorber if the issuer runs into trouble. Banks have duly made full use of the opportunity. There is already evidence of interest among insurance and oil companies. Since preference dividends are paid out ahead of ordinary dividends, auditors are right to demand they are classified as a separate tier. If that encourages the market to look at the economic substance of instruments – rather than bald balance sheet ratios – so much the better.



force a devaluation. That would boost the market, as in the UK, Sweden and, more latterly, Norway.

Such upward pressures, however, are offset by a stream of gloomy news from the corporate sector and a slip in earnings forecasts for individual stocks. It does not help that the Parisian property market seems to have become caught up in problems similar to London's. As long as the franc fort remains inviolable, the Bundesbank's intransigence will delay interest rate cuts hastening a downward market slide.

Even if the currency tension was resolved, however, the market would then be looking forward to the government elections next March. Historically, the CAC has often proved strong in the first half of the year, only to tail away as the year progressed. Unless there is a devaluation, it could reverse the pattern next year.

likes of Royal Insurance and Commercial Union. The proposed insurance pool looks sensible. A similar arrangement covering atomic energy risks provides something of a precedent. The problem is one of capacity. Without near universal participation by the insurers the capital in the pool would hardly cover the risks. Yet the reinsurers will doubtless be no more willing to join the pool than to assume the risk in a conventional manner.

That suggests the government may have to step in, perhaps as a reinsurer of last resort. Even if an agreement is forthcoming, though, both sides will have to work fast to put adequate protection in place in time for next year. It would not help the UK's international competitiveness if companies could not fully insure their premises.

### Isosceles

Isosceles' bankers now face an acute dilemma: either they pay up and let the Gateway grocery chain live, or clam up and watch it die. With interest payments still rolling up at an alarming rate and trading conditions deteriorating by the day, the Isosceles buy-out vehicle desperately needs more money. The company is inexorably heading for its third refinancing in as many years.

It is, of course, natural for bankers to spread bad debts over a long time to minimise one-off shocks, but inactive delay may be self-defeating. If the company were broken up now its assets might at best fetch only half the £1.2bn which the banks are still owed. On its present course they are likely to be worth still less two years down the line. The banks may yet decide that their best hope of recovering the shortfall lies in installing pragmatic management with enough cash to regenerate growth. Although trading has been badly hit, Gateway still has a sound core which may make £10m operating profits this year. Some of the new formats Gateway has launched also seem worth backing. A flotation may be a pipe-dream but future sales of assets at better prices may yet provide an exit route.

The banks will clearly worry about throwing good money after bad – especially as their original loans look increasingly like equity. With Gateway's main rivals opening 250 new superstores in the next three years, competitive attrition will hardly slacken. But the banks are already hurting; boldness may be the only way to save them from more bruises.

### France

Nervousness surrounding the franc has left the French stock market delicately poised. Having shed the strong gains of early this year, share prices are oscillating in a narrow range and equity strategists are groping for a convincing story. Without some resolution of the currency uncertainty, it may be a while before the CAC 40 Index makes a decisive break.

The bull argument suggests that, although the French economy is quickly cooling, it remains among the soundest in Europe and that the market is fundamentally cheap. The current CAC rating is only 14 times next year's forecast earnings – which may anyway be pushed higher by possible cuts in interest rates. The unspoken hope is that the strains within the exchange rate mechanism may yet

### UK insurance

The Association of British Insurers should have known better than to get into a public confrontation with the government over cover for acts of terrorism. Its inflexible demand for extension of full government cover to mainland Britain risks jeopardising the chances of a workable compromise. The industry needs one, though, to secure the continuing goodwill of both the government that regulates it and its large commercial customers.

This is not to deny the industry's point. Continental reinsurers are unwilling to continue sharing terrorism risks, which would leave the UK insurers unacceptably exposed. With the benefits of reinsurance, April's bomb in the City of London would have swallowed up most of the additional capital raised recently by the

## Liechtenstein defies Swiss poll by voting to join EEA

By Ivo Dawmay in Vaduz

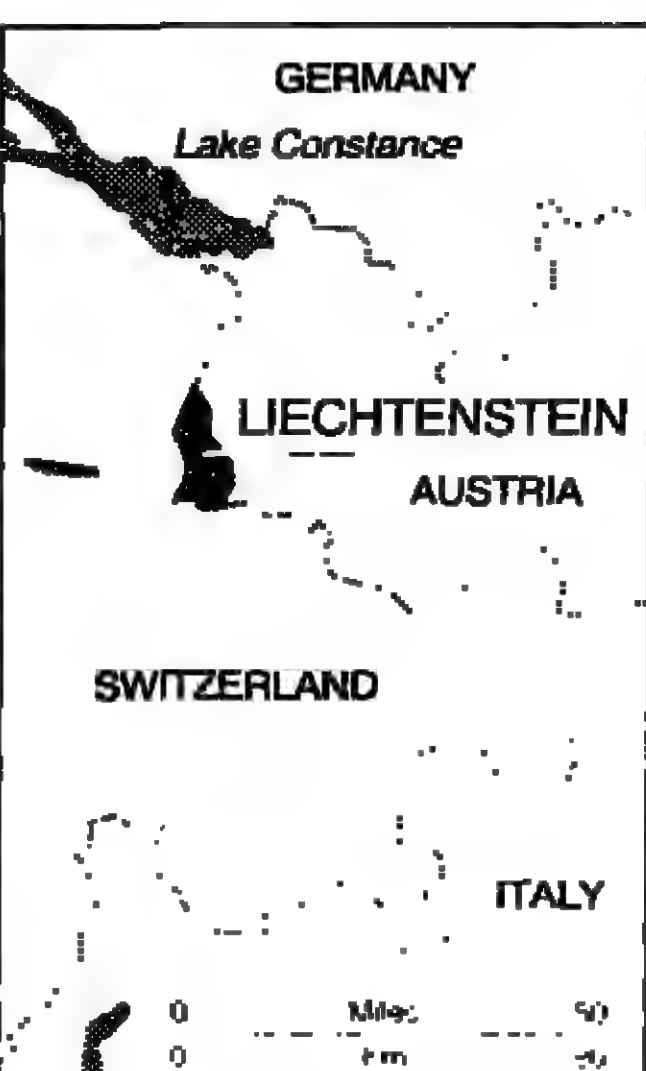
A MOUSE roared in alpine Europe yesterday when the tiny principality of Liechtenstein defied public opinion in neighbouring Switzerland and voted to join the European Economic Area.

In traditional Ruritanian style, Mr Hans Brunhart, the prime minister, offered a news conference dominated by Swiss journalists the joking pledge that this would not mean border posts being put up on the country's eastern Rhine frontier – "at least not tomorrow".

The outcome was quite as surprising to many Liechtensteiners as Switzerland's vote just a week earlier not to join the EEA, the free trade grouping widely seen as a waiting room for the European Community.

Most of Liechtenstein's political leaders had warned before the Swiss plebiscite that – whatever its result – their country should follow their neighbour's lead.

But when the Swiss voted No, Vaduz was caught in a quandary between solidarity with Bern and its need to trade in a wider Europe. In the event, the outcome was decisive, with all 12



communes obeying Prince Hans Adam II's impassioned entreaties for a Yes vote. The overall majority was 1,400 votes a landslide in a country of just 30,000.

The consequences, nonetheless, may be significant for the 70-year-old customs union with Switzerland. Hurried assurances were issued last night that the vote would not materially affect

relations with the Swiss nor involve surrendering the mighty Swiss franc as Liechtenstein's national currency. The principality's businessmen and international bankers have also been promised that there is no threat to its much-envied low-tax regime which has helped make it the richest country in Europe in terms of GDP per capita.

Talks will open in the coming weeks with Switzerland as to how to adjust the terms of the customs union to accommodate both sides.

Last night, the Prince was clearly jubilant at his subjects' decision. He treasured the outcome was not so much a rejection of Switzerland as a solid endorsement of closer trade ties with a wider Europe that buys 45 per cent of Liechtenstein's manufactured exports.

Questioned on possible EC membership, opposed by a vast majority of his countrymen, the Prince rejected a membership application in the foreseeable future as "a step too far".

That will come as a relief to the lightly taxed drinkers celebrating or drowning their sorrows last night in downtown Vaduz.

## Major confident that treaty is salvaged

Continued from Page 1

sceptics said last night that they will step up their efforts to wreck the legislation with lengthy Commons' debate of the hundreds of amendments already tabled.

The government also faced a warning from the opposition parties. The Liberal Democrats, firm supporters of Maastricht, said their backing for the government would depend on a "speedy" third reading. Labour indicated that it intended to keep Mr

Major guessing on whether it would again oppose the bill.

The prime minister said he had agreed that Britain would ratify "as speedily as possible". But the only time limit he would set was the end of the parliamentary session in the autumn.

The direct link between Danish and British ratification set out in detail by Mr Douglas Hurd, the foreign secretary – added a note of uncertainty to what was widely judged to have been a considerable diplomatic success for the prime minister.

Mr Hurd, speaking on BBC television, acknowledged that if Denmark and Britain rejected the treaty some or all of the remaining 10 governments might sign a new agreement.

Mr Hurd warned of the danger of Britain being left outside any grouping which could take decisions affecting the country's "jobs, prosperity and security". Downing Street said the comments underlined the government's commitment that the Community's 12 nations should move forward together.

World Weather		°C		°F		°C		°F		°C		°F							
		Boulogne	F	8	46	Frankfurt	C	9	43	Manila	S	16	61	Tanaris	F	16	61		
		Buenos Aires	F	6	43	Geneva	S	11	51	Makassar	S	16	61	Tokyo	S	13	55		
Abasco	S	15	59	Guatemala	F	9	41	Granada	F	15	59	Mali	C	15	59	Toronto	T	-9	15
Algiers	S	16	61	Havana	S	20	68	Guatemala	F	20	68	Moscow	S	10	50	Urumchi	S	10	50
Amsterdam	F	6	43	Calicut	S	21	70	Helsinki	S	11	51	Prague	S	12	54	Yokohama	S	10	50
Athens	F	15	59	Cape Town	S	22	72	Hong Kong	F	22	72	Roskilde	C	-2	27	Yokohama	S	10	50
Bahia	S	21	70	Caracas	S	25	77	Hong Kong	F	22	72	Roskilde	C	-2	27	Yokohama	S	10	50
Bangkok	S	32	90	Chicago	T	2	36	Inverness	F	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Batavia	S	11	52	Cologne	S	5	41	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Beijing	S	2	36	Copenhagen	S	5	41	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Bombay	S	16	61	Cebu	S	25	77	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Buenos Aires	S	15	59	Dallas	F	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Calcutta	S	25	77	Darwin	S	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Cardiff	S	10	50	Delhi	S	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Chennai	S	25	77	Dubai	S	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Colombo	S	25	77	Durham	S	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Copenhagen	S	5	41	Edinburgh	S	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Dallas	F	10	50	Faro	S	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Darwin	S	10	50	Florence	S	10	50	London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Delhi	S	10	50					London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Dubai	S	10	50					London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Durham	S	10	50					London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Edinburgh	S	10	50					London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Faro	S	10	50					London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50
Florence	S	10	50					London	S	10	50	Roskilde	C	-2	27	Yokohama	S	10	50

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# Kuwait's difficulties in Spain widen

By Peter Bruce in Madrid

THE financial difficulties at Grupo Torras, the Spanish investment arm of the Kuwaiti Investment Office which this month filed for receivership, have spread to other parts of the Torras empire.

Prima Inmobiliaria, the company's large property affiliate, has filed for court protection against creditors. The move is widely seen as a serious threat to another Torras subsidiary, Torraspapel, Spain's biggest paper company.

The news of the Prima filing came as KIO officials met in London over the weekend to contain a crisis of confidence in the KIO itself, which has been left with losses of \$4bn following its investment thrust into Spain.

Some international banks are studying ways of acting against the KIO if Torras and its affiliates do not repay their borrowings. Bank creditors to Torras and

its companies met last week in Madrid with KPMG Peat Marwick, which has been appointed to replace Torras' Kuwaiti managers during the receivership. Banks are insisting on accelerated repayment of loans from Torras affiliates, which, like Torraspapel, are not legally affected by the parent company's receivership. Formal approval for the Torras receivership was given by a Madrid judge last Friday, a move which immediately triggered the Prima filing.

Bankers in Madrid say Torras' financial plight may have been overstated. While the Kuwaitis insist all \$4.5bn invested in Spain since 1986 has been lost, KPMG Peat valued the group at Pta2.9bn (\$25.43m) just over a year ago and warned Kuwait that if it tried to sell assets in a poor economic climate it risked taking substantial losses.

KPMG also advised the Kuwaitis to treat Torras debt to the KIO as equity. But in receivership papers filed in Madrid the

Torras liabilities are shown as \$2.4bn, of which \$1.6bn is debt to the KIO.

Prima, Spain's third largest property developer, filed for receivership on Saturday along with its biggest subsidiary, Urbanor. The two have liabilities of \$1bn, owed mainly to Spanish banks.

The KIO, through Torras, owns just over 30 per cent of Prima, though former Spanish managers say the true holding is close to 70 per cent.

# US groups combine work on electric car

By Martin Dickson in New York

AMERICA'S big three car makers - General Motors, Ford and Chrysler - are to co-operate much more closely in the development of electric vehicles.

The trio have signed an agreement to investigate co-operation in the design, development, testing and possible manufacturing of electric vehicle components which would ultimately be used in each company's own vehicles.

The announcement comes as financially-troubled GM, the biggest of the three US groups, scales back its much-vaunted solo effort in the field of electric vehicles.

The venture will take place under the auspices of the US Council for Automotive Research (Ucar), an umbrella body which co-ordinates research among the big three, and it will aim to find "the most effective way to hasten electric vehicle development".

Electric vehicles are currently uneconomical but California has insisted that carmakers begin offering "zero emission" vehicles - in other words, electric cars - by 1998 if they are to sell other models in the state. Japanese manufacturers are also intensively investigating electric vehicle technology.

GM, which for years has trumpeted plans to have its plastic-bodied Impact electric vehicle in commercial production by the mid-1990s, now appears to have quietly dropped that plan because of the severe financial pressures facing the group.

GM said it would produce up to 50 electric vehicles next year which would be provided to utilities, local governments and others for technical feedback. However, GM has also reportedly told hourly workers who had expected to build the Impact of an indefinite delay in commercial production plans.

Detroit's big three have co-operated increasingly in recent years - in areas ranging from vehicle research to political lobbying - as competition from Japanese manufacturers has intensified. Ucar is already looking at advanced battery technology for electric vehicles.

The alliance unveiled on Friday goes beyond previous joint ventures into possible parts manufacturing. This might have caused anti-trust problems but the companies evidently believe the competitive threat from Japan will outweigh any monopolist concerns in the Clinton administration.

## INSIDE

### Report highlights Tarmac's problems

Further evidence is emerging of the financial problems facing Tarmac, the UK housebuilder. It is awaiting a management consultancy report which will add weight to forecasts of large losses for 1992. The report, by accountants Coopers & Lybrand, is expected to arrive in the boardroom within a fortnight. Page 20

### Bock may move to London

Mr Tiny Rowland's threat to transfer the domicile of Lorho to Germany has surprised advisers acting for Mr Dieter Bock, who is buying Mr Rowland's stake. Mr Bock, the German financier, expects to move to London if he decides to take up the seat on Lorho's board. Page 20

### Surprise at S&P move

UK life insurers were surprised at the attempt by Standard & Poor's, the international credit-rating agency, to rank them according to their financial strength. Actuaries and analysts were prepared to accept S&P's central claim that life office strength has been reduced in the last five years and that solvency margins will remain permanently lower. But many attacked the wisdom of classifying individual offices into three categories on the basis of publicly available information alone. Page 20

### Giving a XXXX for cultural icons

The caricature of an Australian is a man wearing an Akubra hat and driving a Holden car, and eating Vegemite sandwiches washed down with Castlemaine XXXX beer or a glass of Jacob's Creek wine. These locally-made products are cultural icons, yet only Akubra is Australian owned. Concern about the level of foreign ownership is beginning to emerge. Page 21

### Gilt buoyed by inflation

Gilt prices were buoyed by better than expected news on inflation, although a continuation of the obdurate stance by the Bundesbank on interest rates reduced demand for short-dated bonds. Page 22

### Market Statistics

Base lending rates	20	London share service	23-21
FT-A World Index	22	Managed fund service	23-23
FT/REMA Int bond svcs	22	Money markets	23
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London recent issues	23	World stock index	24

### Companies in this issue

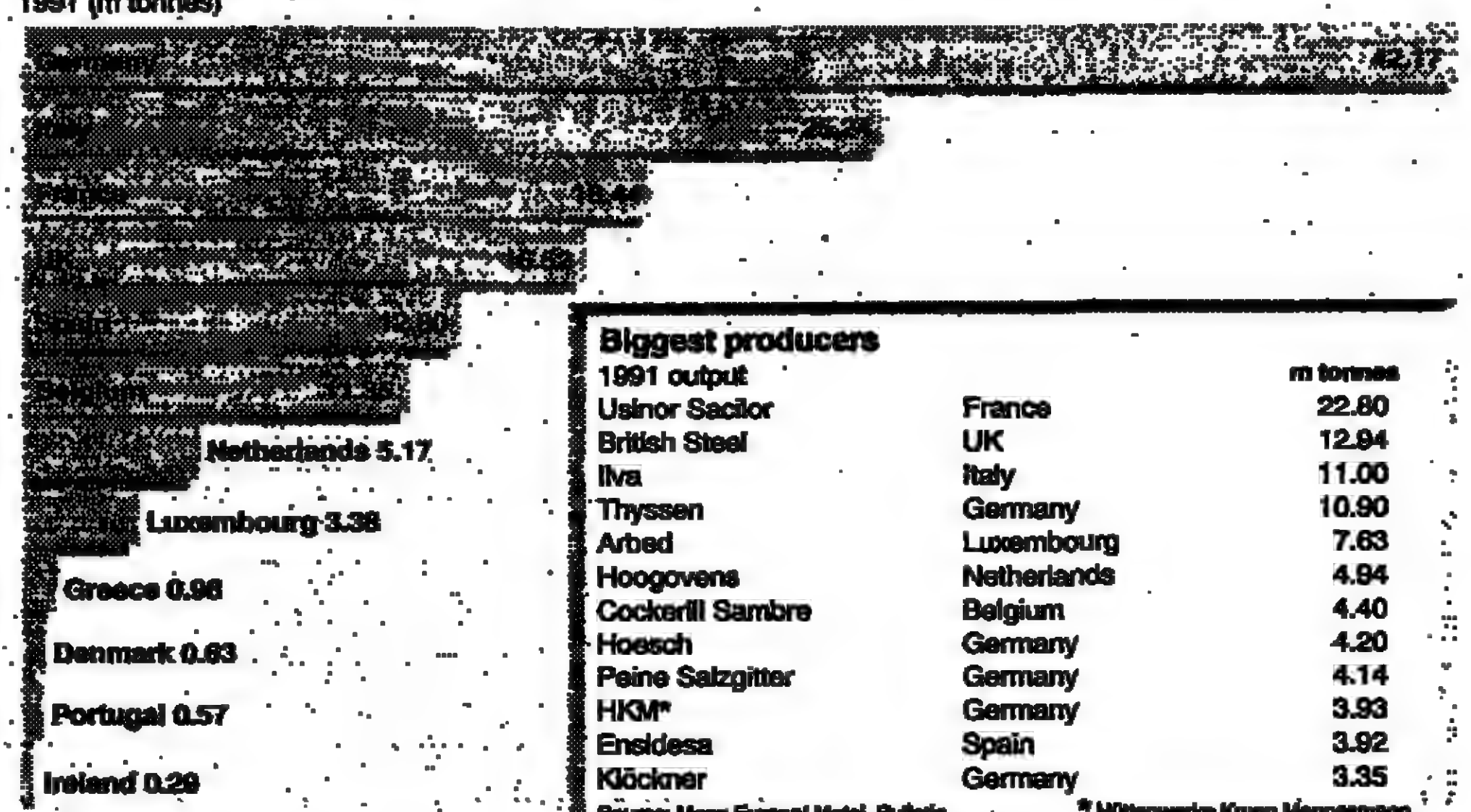
Anglo United	19	Macy	21
Bank Mizrahi	21	Merrill Lynch	22
Chrysler	19	Pratt & Whitney	21
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Lorho	20	Woodward's	21

## Christopher Parkes on why the German steel maker has had to file for protection

# Klöckner seeks cover from storm in the market

### EC crude steel production

1991 (in tonnes)



### Biggest producers

1991 output	tonnes
Usinor-Sacilor	22.80
British Steel	12.94
Iva	11.00
Thyssen	10.90
Arbed	7.83
Hoogovens	4.94
Cockerill Sambre	4.40
Hoesch	4.20
Peine Salzgitter	4.14
HOM	3.93
Erdelisa	3.92
Klöckner	3.35

Source: Eurostat

bankruptcy - and in the undignified position of being only the first significant German group to run for cover in composition proceedings in the past decade.

Klöckner started to come to grips with its weaknesses in the late 1980s. In 1989, when steel and steel processing still accounted for 90 per cent of sales and 100 per cent of profits, it began a process of accelerated evolution. In a bid to add value to its core business, it took on Finnish and Japanese partners to build a DM400m hot galvanising mill in Bremen. Designed to supply Japanese car plants in Europe, it is due to start next year.

But a key shift was diversification into motor components, a path already established by larger competitors such as Mercedes, Hoesch and Krupp. In

1989 it bought Kautex, a plastics company making vehicle petrol tanks. A year later it paid DM400m for Eurotec, a mouldings concern dependent on motor makers for 85 per cent of sales. Plastics are now the group's single biggest source of turnover. Meanwhile, other businesses - drinks machines and bottling plant manufacture - were added for good measure.

But Klöckner's new legs have proved neither long enough nor strong enough to carry the group out of the trough. Plastics and mechanical engineering made operating profits of just DM65m last year, as losses in steel climbed from DM23m to DM200m.

Meanwhile, prospects are dimming for key parts of KMM dependent on the automotive industry. German motor vehicle

production is falling fast. Leading manufacturers including Mercedes-Benz and Volkswagen, which earlier this year unveiled plans for huge medium-term job cuts, have lately announced extensive short-term working in the first quarter of the new year. According to some estimates, German car output will fall by 500,000 in 1993.

The knock-on effects on suppliers were highlighted over the weekend when ZF, the gearbox and transmission specialist, said orders in the past few months had been between 15 and 20 per cent down on last year. The company, which reported an operating loss in 1991 and expects further deficits this year and next, said it was to cut its workforce by 1,200. Car body

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# Frustration over blackout on UK trade figures

with complications.

"We'll spend the first three months sending back forms to the hundreds of people who fill them in incorrectly," said the CSO. This is why the agency has given itself a year in which to get the series rolled before presenting the numbers to the public.

Nonetheless, many are wondering why the new system was not introduced earlier to run alongside the old series. This would have avoided an interruption in the trade figures.

the deficit on the current account wider.

This, in turn, could lead to selling pressure on the pound. The public will also have to wait to find out what one of the most important parts of the 1992 initiative - the abolition of customs frontiers - is doing for trade flows.

The CSO says it decided against an overlap between the old and the new systems to avoid putting too heavy a burden on businesses. It also points out that other

other. Eurostat insists that running the two systems together would have been impractical.

Furthermore, original plans for administering Intrastat had to be scrapped in 1989 when the Council of Ministers rejected plans for changing the way VAT is collected.

But with only one month to go before the switch is made, there have been complaints from UK businesses that they have not received the information, paperwork and guidelines they need in order to comply with Intrastat's new, and legally binding, requirements. The UK government has allegedly not issued details of the procedures companies must follow.

Other EC countries have not requested six months to rehearse the system before publication, but they too have their doubts about Eurostat's timetable which suggests the first sets of figures should be ready for publication by March.

"Statistical offices in countries like Germany and France will be under a lot of pressure from their big users if they do not provide information in the first three to four months," said a Eurostat administrator.

The Germans, sensitive to their trade position since unification wiped out a healthy surplus on their visible trade balance, say they will produce an estimate in April. "This is our plan, but not our promise," said a spokesman from the Federal Statistical Office in Wiesbaden.

In Denmark, they believe the official timetable is unrealistic. The statistical office said it did not expect to produce the results of Intrastat until June at the earliest.

Given the likely sensitivity of intra-EC trade figures next year and the confusion that Intrastat appears to be generating in certain quarters, it could be that the UK approach of saying nothing will turn out to be the most prudent.

## Banks near to debt deal with Anglo United

By Roland Rudd in London

ANGLO UNITED, owner of Coalite, the UK smokeless fuel business, is close to reaching an agreement with its banks over a debt-for-equity swap.

Under the terms of the restructuring plan, the banks would write off £110m (£167m) of the group's £240m debt in favour of taking new ordinary and convertible shares and a zero-coupon bond.

Anglo, which mostly financed its £250m takeover of Coalite in 1989 through debt, has recently run into difficulties in repaying borrowings from cash flow and disposals.

Last year's mild winter and continuing recession dented profits before tax, which fell from £15.7m to £8.3m for the year to end March. The group's disposal programme of its non-core businesses has also been adversely affected by the recession.

The restructuring plan involves the banks taking new ordinary shares set at a premium to Anglo's existing share price which on Friday closed at 75p.

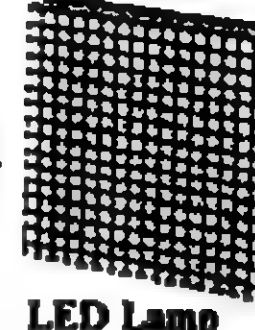
Existing shareholders, who would retain more than half of the enlarged equity, are to be offered warrants at the same price that the new ordinary shares are to be offered to the banks.

A financier involved in the deal said: "There has been some very tough negotiations between the banks and the company. The most bruising aspect has been management's insistence that existing shareholders should retain more than 50 per cent of enlarged share capital."



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## COMPANIES AND FINANCE

## Rowland's threat to move Lonrho surprises Bock

By Roland Rudd

MR. TINY Rowland's threat to transfer the domicile of Lonrho to Germany has surprised advisers acting for Mr Dieter Bock, who is buying Mr Rowland's stake.

Mr Bock, the German financier, expects to move to London if he decides to take up the seat on Lonrho's board, after completion of the rights issue on January 15. According to one adviser the idea of transferring Lonrho's operational headquarters to Germany is the first he has heard of it. "None of this has been discussed with Mr Bock," said the adviser.

In an interview with The Observer, which is owned by Lonrho, Mr Rowland said: "If I felt the company would be better understood and receive greater support, we would be quite prepared to move our headquarters to Germany."

Mr Bock is underwriting half the 200m shares in the three-for-10 rights issue at 85p per share, taking up Mr Rowland's rights, and buying half his 15

per cent stake at 115p a share with an option to buy the other half in three years time.

Following the rights and sale of VAG, the Volkswagen/Audi import and distribution operation in the UK, for £124m, Mr Rowland is predicting that Lonrho's net debt will soon fall below £700m, against £947m at September 30.

Further asset sales are planned, including some of the 4,300 flats which Lonrho owns in western Germany.

It is understood that while Mr Bock has not discussed changing Lonrho's domicile to Germany, he believes continental Europe will be an increasingly important trading area.

This has encouraged further speculation that Mr Bock may be in favour of re-opening the talks with Gencor, South Africa's second largest mining group, over the future of Lonrho's 73 per cent controlling stake in Western Platinum.

Mr Brian Gilbertson, head of

Lonrho, is keen to merge his platinum interests with Lonrho's to create the world's biggest platinum group.

## Provisions could push Tarmac to £200m loss

By Peter John

FURTHER evidence is emerging of the financial problems facing Tarmac, the UK's biggest housebuilder. The company is awaiting a management consultancy report which will add weight to losses forecast for 1992 of some £200m.

The report, by accountants Coopers & Lybrand, is expected to arrive in the boardroom within a fortnight. It will concentrate on Tarmac's properties division, which contributed to a pre-tax loss of £15.1m in the first half of this year.

On Friday, the construction group announced the resignation of Mr Tony Collins, the chief executive of the properties division. Tarmac said at the time of the interim in September that it was scaling back its property side, and stated yesterday that Mr Collins, who joined the main board in 1989, would not be replaced.

A spokesman for the company said of the Coopers analysis: "It is not completed yet. The fact that there are going to be provisions is not new but the Coopers report will quantify those provisions. It is part of the new chief executive's thorough review of all aspects of the group."

The impact on the figures depends on whether the write-downs are included below or above the pre-tax line. Assuming they are above, some analysts believe the total deficit will be £200m with the most pessimistic going for £300m. Mr Mike Betts, a building materials and construction analyst with US investment bank Goldman Sachs, said he expected write-downs on housing and property to result in Tarmac "declaring a substantial pre-tax loss this year of up to £200m." That would compare with a 1991 profit of £21m after provisions.

In September Tarmac said it was cutting the number of homes it builds by up to a fifth, pulling out of commercial property development and raising cash to cut debts by disposals.

## Being forced towards more accountability

John Authers looks into the impact on life companies of Standard &amp; Poor's ratings

THE usually staid ranks of the UK's life insurers were shaken into uproar last week at the attempt by Standard & Poor's, the international credit-rating agency, to rank them according to their financial strength.

Actuaries and analysts were prepared to accept S&P's central claim that life office strength has been reduced in the last five years and that solvency margins will remain permanently lower.

But many attacked the wisdom of classifying individual offices into three categories on the basis of publicly available information alone.

Falling property values and disappointing equity markets in the last five years have cut heavily into the assets and reserves of life companies. Meanwhile, costs of distribution have increased since the Financial Services Act, 1986, which led insurers to raise commissions and establish costly ties with building societies and banks. S&P says that many offices are "suffering severe expense inefficiencies".

This has led to widespread falls in the free-asset ratio, the most commonly used crude measure of strength. This measures the proportion to which

an office's assets exceed its liabilities to policyholders.

Even Standard Life, the UK's largest mutual life office and awarded the top AAA ("Superior") claims-paying rating by S&P, has seen its ratio fall from 22.9 per cent in 1986 to 12.6 per cent in 1990. Over the same period Legal & General, the UK's fourth largest life insurer and also rated at the highest level by S&P, has suffered a decline from 30.5 per cent to 13.9 per cent.

Several companies have taken evasive measures to avoid capital strain, by cutting policyholders' annual bonuses, and by switching from equities and property into fixed interest securities, which are valued more favourably under the DTT's stringent solvency requirements.

When this happens, pay-outs to policyholders are hit. This has led to greatly increased interest in financial strength among the independent brokers on whom the longest established "with-profits" offices are dependent for much of their business. The actuarial calculations involved are complicated, but several leading independent financial advisers have called for a simple rating for life office strength.

S&P is bidding to fill this gap in the market, and its importance was demonstrated by the immediate impact on National Provident Institution, one of the four companies it described as "vulnerable". Within an hour of its London office opening on Friday, 20 alarmed policyholders had telephoned asking to cancel policies.

However, it is difficult to classify life offices solely on the basis of published information and DTT returns, as different actuaries use various assumptions when valuing liabilities. Changing the assumption on future interest rates can drastically alter an office's total liabilities.

This means that free-asset ratios and other crude measures can prove individual offices have weakened, but not necessarily that one office is stronger than another.

"Information available from published sources can provide only a broad indication of the relative financial strength of life offices. In particular, no comparison is meaningful unless full account is taken of the degree of conservatism inherent in the determination of liabilities since there is considerable variation between

companies," says R Watson, consultant actuaries.

All the four companies branded as "vulnerable" complained they had not been consulted. NPI, which could be seriously damaged by S&P's rating as most of its business comes from independent advisers, quickly issued a rebuttal, supported by R Watson.

Mr Bernard Brindley, NPI's chief actuary, pointed out that it used a conservative valuation policy - in other words, it assumes future interest rates will be relatively low at 4 per cent. Meanwhile it has kept 65 per cent of funds in equities.

This is lower than some offices which have high free-asset ratios, such as Pearl, with 81 per cent invested in equities, but remains higher than offices such as Scottish Equitable (43 per cent) and Guardian Assurance, another to receive an S&P "vulnerable" rating, with 38 per cent.

Mr Brindley also pointed out that NPI's free-asset ratio was only slightly lower than those of several other similar-sized offices, and suggested that singling it out for a "vulnerable" rating was arbitrary.

S&P's ratings may, therefore, be too blunt an instrument to apply to such a complex topic.

But the insurers' howls of anguish do reveal one problem which the industry must address. One consulting actuary put it this way: "If you always put about the message that strength is important but life offices cannot be compared, it's a natural consequence for someone to come along and say that if the best information isn't published, then they'll just have to rely on published information. It's the sort of service financial advisers need to do their job properly, and the offices will have to put up with a degree of arbitrariness."

Life insurers have come under increasing pressure from both regulators and the press to be more open about their charges and accounts this year. And none denies that the industry as a whole has weakened. The dispute over the S&P ratings is the latest chapter in a story which seems to be moving towards a more open and accountable industry.

● S&P's UK Life: Financial Strength Digest, available from Standard & Poor's Insurance Rating Services, 7th Floor, Garden House, 18 Finsbury Circus, London EC2M 7BP. Fax 071 638 1025. Price £49.

## Martin Bierbaum to be sold this week for £25m

By Angus Foster

MARTIN Bierbaum, the international money broker under the control of bank creditors to Mr Gary Klesh's Quadrex, is expected to be sold later this week to Trio Investment, a small investment trust controlled by Mr David Hagan, formerly at rival money broker Tullett & Tokyo.

It will pay £25m for Bierbaum, which has more than 700 employees and is prominent in the US dollar against DM spot market.

Trio, which suspended its shares when heads of agreement on the deal were signed in July, is raising the money through a £15m placing and £10m rights issue underwritten by Smith New Court.

Shareholders will also be

asked to approve the switch from investment trust status to a holding company for the international trading of money, securities and derivatives.

The share suspension will be lifted if shareholders give approval at an egm scheduled for mid-January.

### Drayton Recovery revenue at £796,000

Drayton Recovery Trust, which was launched last year, reported net asset value of 77p as at October 31. Net revenue for the period from August 23 to the end of October was £796,000 for earnings per share of 9.63p.

A final dividend of 3.95p is proposed making a total for the period of 7.95p.

## Arrangements advanced for sale of 25m Teva shares

By Andrew Jack

ARRANGEMENTS are well advanced for the sale of the 25m shares in Teva, the Israeli pharmaceutical group, which are owned by the Common Investment Fund - the pot into which the Maxwell pension funds were pooled for investment.

Mr Neil Cooper of accountants Robson Rhodes, liquidator to Bishopsgate Investment Management, manager and trustee of the Maxwell pension funds, said that a sale was expected "in the New Year".

He would not specify a date, stressing that this was market-sensitive information, but said the Teva shares "were not necessarily ones we want to hold on to".

However, he had just

approved the appointment of County NatWest, the investment house, as advisers on the sale of the shares.

The Teva shares were valued at £25m last summer and are now estimated to be worth more than £40m.

The shares were voluntarily returned to the pension funds in June this year by National Westminster Bank, which had been pledged them as security for a £27.3m (£17.9m) loan to Robert Maxwell Group, a Maxwell private company, two days after Robert Maxwell's death.

Any distributions of the money to the pensioners is subject to continuing disputes over claims on ownership between trustees to the five Maxwell pension funds which contributed to the CIF.

### CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Volkswagen (Germany)	VAG (UK)	Car distribution	£124m	Part of Lonrho sale package
McCorm DeLeuw (US)	US unit of Pacific Dunlop (Australia)	Stationery & furniture	£91m	Pacific Dunlop continues sales
Fortis (UK)	Sogerba (France)	Hotels & catering	£64m	Larger European presence sought
Mr Dieter Bock (Germany)	Lonrho (UK)	Trading	£135m	Stake sale tiny bit controversial
Skoda-Pilsen (Czech)/Dorries Schramm (Germany)	Joint venture	Steel-cutting equipment	£20m	Skoda-Pilsen's production taken over
United Newspapers (UK)	M&T Publishing (US)	Publishing	£11.6m	Expansion via local arm
Hepworth (UK)	AWB (Netherlands)	Gas boilers	£10.2m	Strengthening European operations
Gillette (US)	Wizamet (Poland)	Razor blades	£1.0m	Privatisation deal
British Airways (UK)	Qantas (Australia)	Airlines	n/a	BA bid lodged
Singapore Airlines (Singapore)	Qantas (Australia)	Airlines	n/a	SIA bid lodged

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## Pacific Telesis to split itself into two

By Martin Dickson  
in New York

PACIFIC Telesis, the California-based local telephone company, is to split itself into two under plans to spin off the company's wireless communications business.

The move, a unique departure by a "Baby Bell" regional telephone company, is aimed at taking advantage of the increasingly competitive US and international telecommunications markets.

Mr Sam Ginn, chairman of the group, told the Financial Times that the move signalled the company "intends to be a world competitor in wireless telecommunications," taking advantage of global privatisation trends.

Pacific Telesis is to spin off its wireless business, which has annual sales of around \$1bn, into a company separate from its local telephone operations, which serve most of California and large parts of neighbouring Nevada and have a turnover around \$9bn.

The US local telephone market is slow growing, highly regulated and, while still essentially a monopoly, subject to increasing competition for business customers. The wireless communications market is lightly regulated and growing extremely rapidly, both in the US and other developed countries.

Pacific Telesis is one of the largest providers of cellular telephone services in the US and also has a sizeable paging business and a fledgling vehicle tracking operation. It has cellular operations in Germany, Portugal and Japan, and other wireless interests in France, Spain, Thailand and South Korea.

The spin-off, expected to take about a year, is the biggest structural change by one of the seven "Baby Bells" since their creation in 1984, when AT&T was forced to spin off its local operations in a court-ordered anti-trust settlement.

Mr Ginn said the creation of two separately traded companies should mean better value for shareholders, since financial markets tended to place a higher value on single focus organisations.

The wireless company will be known as Pactal Corp and will raise about \$750m of new equity during the spin-off, which will involve a tax-free distribution of the parent company's stake to existing shareholders.

Pactal will be headed by 55-year-old Mr Ginn, while the new chairman of Pacific Telesis will be Mr Phil Quigley, 50, president of its Californian phone company, Pacific Bell.

Mr Ginn said the split would give Pactal greater ability to raise capital and attract partners in overseas ventures. It may also give it a greater chance to acquire licences in the US for a second generation of mobile telephones, known as personal communications services, which the US government intends to license over the next few years. The Federal Communications Commission has indicated a bias against giving these licences to companies which already hold cellular licences in a particular area.

Mr Ginn said Pactal could enter the long-distance market itself or contract for the services of existing suppliers. AT&T, the leading US long-distance carrier, itself underlined the growing links between the two markets last month when it announced plans to take a 33 per cent stake in McCaw Cellular, the largest US cellular carrier.

Mr Ginn added that while Pactal had no manufacturing ambitions, it may wish to take an equity stake in an equipment company as part of the development of its services.

## Australia faces an identity crisis

Kevin Brown reports on the growing level of foreign ownership

Picture a typical Australian. He wears an Akubra hat and Drizabone raincoat, drives a Holden car, and lunches off Vegemite sandwiches washed down with Castlemaine XXXX beer or a glass of Jacob's Creek wine.

Many Australians would see such a "typical Aussie" as a caricature. But most would also regard the locally-made products as cultural icons, each of which expresses something about what it means to be Australian.

Yet only Akubra is Australian owned. Holden and Vegemite are US-owned, Castlemaine is run from New Zealand, Drizabone is British, and Jacob's Creek, part of the Orlando Wyndham group, is French.

These are not isolated cases. More than half of the Australian beer industry is foreign-controlled, as is about 70 per cent of processed food production, 90 per cent of daily newspaper circulation, and much of the wine industry.

The Labor government has taken a relaxed view of the growing level of foreign ownership, arguing that each case should be dealt with on its merits. The Foreign Investment Review Board approves 95 per cent of applications from overseas companies to acquire stakes of more than 15 per cent in Australian companies.

But concern about the level of foreign ownership is beginning to emerge among economic nationalists such as Mr Harry Palmer, president of the Australian Owned Companies Association, who wants a ban on further foreign acquisitions. Most attention is focused on a gradual restructuring of the food industry, which analysts say could leave Australia without a single locally-owned major manufacturer.

The deal is not typical because the snacks business is in effect being transferred from one foreign owner to another - CCA is itself 51 per cent



Unfair dinkum: authorities take a relaxed view of the movement of company ownership abroad

owned by Coca-Cola, the US drinks company.

However, Mr Jonathan Rabinovitz, food industry analyst at Potter Warburg Securities, says it provides a good illustration of the three main driving forces behind the restructuring.

These are: shedding of non-core businesses by companies which expanded their product mix in the 1980s; expansion of core food activities by the major manufacturers; and growing international interest in Australia and New Zealand as a base for building business in the rapidly expanding Asian market.

Mr Rabinovitz says the deal allows CCA to concentrate on its profitable beverage bottling business, while adding to the core business of UB by delivering market leadership in an important regional market.

UB has also made clear that it sees the deal as an opportunity to establish an Asia-Pacific bridgehead from which to compete with PepsiCo, the US soft drinks company, with which it is battling for world-wide market share.

Some of the same driving forces can be identified in other recent food industry developments, including:

- The NZ\$560m (\$292.6m) purchase by Heinz, the US food group, of the Wattle food business in New Zealand from Goodman Fielder Wattle. Mr Tony O'Reilly, Heinz chairman, has made clear that he plans to use Wattle's efficient plants to attack the Asian market.
- GFW's A\$300m acquisition

of the Uncle Toby's food group in Australia as part of its attempt to become the biggest manufacturer of cereal-based branded food products in the Asia-Pacific region.

• The acquisition by Pacific Dunlop of the Petersville Sleigh brands from the collapsed Adsteam group, formerly controlled by Mr John Spalvins. Pacific Dunlop already has a strong presence in Asia-Pacific markets.

• The battle for control of Arnotts, the Australian biscuit maker, for which Campbell Soup of the US is bidding A\$8.80 a share, valuing the group at A\$1.2bn. Campbell wants to use Arnotts to spearhead a major sales drive in Asia.

Arnotts has rejected the bid, and is basing its defence partly on an appeal to the FIRB to prevent ownership passing overseas, which it claims will involve no advantages in terms of technology or marketing skills.

Mr Rabinovitz says the strong attraction of Australia to international companies, combined with the relative weakness of the surviving locally-owned companies, suggests the Campbell bid is likely to be "just the beginning of the ultimate domination of the food sector" by multinationals.

"First, the low probability of successfully tackling the multinationals head on is unlikely to justify the risks... of going it alone offshore without an alliance with a strong and

already established multinational.

"Second, on their home front, Australian food companies [will] face a tough trading environment as the multinationals increase their already strong grip on the domestic market," he says.

Mr Rabinovitz suggests that the milling group Defiance Mills and the dairy-based companies National Foods and QUF Industries are prime candidates for takeover by one of the larger global players.

GFW, the largest food business in Australasia, is better protected, but has performed poorly in recent years and faces limited domestic growth opportunities.

"It makes eminent sense for GFW to seek a strategic alliance with one or more multinational food groups in the future. Alternatively, [it] may prove attractive to a major food group seeking to bolster its own core operations," he says.

Much may depend on the outcome of the Arnotts battle. The final decision on whether to allow the bid to proceed will be taken by Mr John Dawkins, the federal treasurer, who has said he will take into account Campbell's ability to assist Arnotts in increasing sales to Asia.

That is not the same as saying that the bid will be decided on grounds of economic nationalism, but it does mean that Campbell will have to convince Australians that the bid is in the national interest, as well as in shareholders' interests.

## Setback for Israeli bank sale

By Hugh Carnegie  
in Jerusalem

THE Israeli government's faltering attempts to sell its majority shareholdings in the country's four leading banks have suffered a setback with the collapse at the weekend of an agreement to sell Bank Mizrahi to Mr Gad Ze'evi, an Israeli businessman.

The collapse leaves the government without any clear strategy for the sale of the banks - the other three are Bank Hapoalim, Bank Leumi and Israel Discount Bank - with only 10 months to go until an effective deadline for their privatisation.

Any bank unsold by October 1993 will fall under direct state control under the terms of the

government's rescue of the banking system following a share collapse in 1988. The state spent \$7bn buying up the majority of the banks' shares, but left management with the original owners under a preferential share system.

Once sold, the government's shareholdings will have equal voting rights, taking the banks back into full private ownership. But the failure to divest by next October could lead to full nationalisation, just as the government is trying to reduce the state's role in the economy.

Mr Ze'evi, who already owns the small Maritime Bank, agreed earlier this year to buy a 51 per cent stake in Bank Mizrahi, previously owned by the World Mizrahi religious movement, for \$185m. But the

Bank of Israel and the US Federal Reserve Board, which had to approve the sale of Bank Mizrahi's US subsidiary, delayed issuing Mr Ze'evi the necessary banking permits.

One dispute arose over Mr Ze'evi's intention subsequently to sell some of the holding to other investors. He demanded the Bank of Israel issue him a permit by last Friday, but it refused.

The government's strategy of placing through private tenders controlling stakes in the banks appears now to be in tatters. It had already been virtually discounted for Bank Hapoalim and Bank Leumi, the two biggest banks, because of their size. The likeliest alternative is large-scale flotations on the Tel Aviv Stock Exchange.

## Macy posts \$135m first quarter loss

By Nikki Tait in New York

R.H. Macy, the US department store group which has been operating under Chapter 11 bankruptcy protection since the beginning of the year, has reported an after-tax loss of \$135.8m for the three months ended October, the first quarter of its financial year.

The loss, however, came after reorganisation costs and interest expense items of \$82.3m. Operating results - earnings before interest, tax, depreciation and amortisation - showed a \$13.4m surplus. Macy said this was in line with expectations, and more than satisfied the covenants agreed with its bankers. Borrowings in October and November were also "significantly below projected levels," and Macy plans to repay all seasonal borrowings this week.

Sales, however, were \$1.48bn during the quarter, down from \$1.6m a year earlier. In part this reflects the closure of some outlets, but total sales and same-store sales still fell by 3.2 per cent and 5.7 per cent, respectively, after the effect of the closures was stripped out.

In October alone, a fairly encouraging month for most retailers, Macy saw total sales advance by 0.6 per cent (excluding the closed stores), but comparable sales still dipped by 2 per cent.

## Woodward's seeks protection

By Robert Gibbons  
in Montreal

WOODWARD'S, western Canada's biggest department store group, cannot meet debt repayments and has filed for bankruptcy protection.

The 100-year-old Vancouver-based chain, with 26 department stores and 33 smaller units throughout British Columbia and Alberta, is preparing a restructuring plan to be put before creditors by mid-February. It will mean more store closures and layoffs.

## Pfizer to increase R&D

By Paul Abrahams

PFIZER, one of the fastest-growing US drugs groups, is to increase its annual research and development spending to more than \$1bn next year.

Mr Henry McKinnel, chief financial officer, said the aim was to increase the percentage of group sales from pharmaceuticals. During the first nine months of this year drugs generated 62 per cent of its \$5.28bn sales compared with 54 per cent last year.

Mr McKinnel said the group would limit price rises on US

prescription drugs to between 2 per cent and 3 per cent in the coming year. The announcement follows growing political pressure from Congress to limit price increases. A number of other groups, including Merck, the largest US drugs company, have undertaken not to raise prices or at least limit them to the rate of inflation.

The promise to increase investment in research and development by up to 20 per cent next year follows an 18 per cent rise to \$756.8m in 1991. The investment is designed to help the group counter the expiry of patents.

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## UK GILTS

## US MONEY AND CREDIT

## Optimism at Clinton appointments

## Peter Marsh

The great unknown remains the economic package Mr Clinton will unveil in the early weeks of his presidency. The market was unsettled by his recent remarks - albeit made in a somewhat equivocal

## JAPANESE BONDS

## Tankan prompts hope of rate cut

Under such circumstances, the Bank of Japan is expected to keep rates low to maintain low-cost short term financing.

**Emiko Terazono**

DOTS 97	175	1077
P AMERICA 9 3/4 99	250	1114
P CAPITAL 9 1/8 99	75	1044
PCA FINANCE 8 3/8 98	150	109
BRITISH GAS 8 3/8 99	350	1061
BRITISH TELECOM FIN 8 3/4 99	200	1085
BRITISH TELECOM FIN 9 3/8 98	250	111
ASSISE NAT ENERGIE 11 3/4 95	125	1123
ANADA 9 96	1000	1084
ANADA 10 95	500	1104

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companies in the domestic market, or whether it would be limited to dealing with foreign investors.

**Martin Dickson**

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## UK BONDS

## Debenture holders face controversial default

BY THE end of this week the UK debenture market could be faced with a rare and controversial default, the first such event to spring from the weakening UK property market.

The case has already prompted many investors to take a closer look at the state of the assets backing their debentures, as well as the wording of the covenants covering their lending. And it has brought scrutiny of how well trustees protect their bond holders' interests.

A £135m issue from London & Provincial Shop, a subsidiary of Roadworth Acquisition, which is in receivership, seems likely to be called into default on Friday, following notice of breach of covenants issued ten days ago by Law Debenture Corporation, the trustee to the issue.

Law Debenture's reason for issuing its notice - the sale by London & Provincial in 1990 of a property over which the debenture holders had a charge - is disputed by the company, which claims it acted in accordance with the trust deed. These rival views could yet end up in court.

London & Provincial's problems go far beyond this, though. Bondholders were told earlier this month that a valuation in June of the properties backing the bonds had shown total assets to be worth

only 1.18 times the £135m lent, compared with a covenanted agreement that the proportion would not fall below 1.5 times. Since June, the company estimates, its assets have fallen further, leaving it with cover of less than 1.1 times.

The company also faces an interest payment to its debenture holders on January 6. Since its recent announcement of losses of £4.57m in the year to June, that payment has been in doubt.

Defaults in the debenture market are few and far between - and even when they happen, investors are normally repaid in full (as happened when Rolls-Royce collapsed 20 years ago). In the past 30 years, only the Prince of Wales Dry Dock in Swansea and Mitchell Construction are thought to have left their debenture holders out of pocket.

That helps to account for the tight spread on which debentures trade: MEPC's secured bonds, for instance, trade at a spread of about 110 basis points over gilts, compared with the 220 basis point spread of MEPC's unsecured debt - a difference of 110 basis points. For the strongest credits in the property sector, like Land Securities, the difference is around 55 basis points.

The rarity of the situation has prompted debenture investors -

mainly insurance companies - to scrutinise their portfolios with renewed interest. So far only Dares Estates, a property investment and development group which is seeking a financial restructuring, has been put on the official sick list.

The London & Provincial case has aroused investors' passions for other reasons too. Despite the lack of adequate asset cover, no formal valuation of the properties has been done under the terms of the debenture's trust deed (the June valuation came from the company's own advisers). Only after a formal valuation, and a further six-month period to allow the company to top up the asset cover, would the bondholders be able to call a breach of covenant.

Some investors feel the trustee to the issue, Law Debenture, has failed to protect their interests. Six months ago, a substantial proportion of the holders asked the trustee to order a formal valuation, only to have their request rejected.

Mr David Norris of Law Debenture still stands by that decision: an attempt by a receiver to sell London & Provincial in full could have been harmed by such a move, if it revealed a low valuation, he says. Also, since the debentures do not mature until well into the next century, it seemed logical to react to a short-term fall in the

property market by starting a series of actions which could lead to a technical default. Investors he spoke to afterwards agreed with the reasoning, says Mr Norris.

He adds that London & Provincial highlights one of the hazards of being a trustee: you are condemned if you act, and condemned if you do not. Others, though, claim the case raises more important questions. How well do trustees exercise their discretion - and are there other situations where they have effectively turned a blind eye to potential breaches of covenants, potentially to the detriment of investors?

THERE is a view abroad in the City that another corner of the domestic sterling bond markets is about to spring into life. Judging by a significant shift in their financing costs, UK local authorities should soon return to the capital markets after a decade-long absence.

The overall picture is clear from figures prepared by Baring Sterling Bonds. In 1981, local authorities had more than £2bn in bonds and loan stocks outstanding. By last year, that had fallen to under £200m. Authorities could borrow more cheaply from the Public Works Loan Board, which itself is funded through gilt issuance, so why turn to the markets?

That picture has changed markedly. PWLB lending counts towards the UK's Public Sector Borrowing Requirement, so rates have been pushed up to dissuade authorities from tapping the public purse. That effectively forces them into a form of public sector off-balance sheet finance - borrowings direct from banks or the bond markets.

This phenomenon isn't restricted to the UK, but is becoming familiar across Europe as national fiscal positions deteriorate.

Why, then, hasn't there already been a stampede of authorities to the sterling bond market? In part, perhaps, because the markets need time to reacquire themselves with the authorities. In the 10 years since they were last big borrowers, the Hammersmith & Fulham swaps case and a substantial shift in the relationship between central and local government have occurred.

Also, authorities tend to move in unison. It seems unlikely that a single authority would move alone, without first having sounded out others: and some authorities may be concerned that, for political reasons, their names are not strong enough to demand an instant following. Logic suggests, though, that the authorities will appear before long.

Richard Waters

## RISK AND REWARD

## Place your bets on the Bundesbank's next move



WILL European interest rates fall to drop as fast next year as forward prices in the money markets predict? Or will they fall faster? Whichever the outcome, a rash of structured products is currently on offer for investors who want to gear up their bets on what the Bundesbank does next.

Betting on the speed of European interest rate cuts has been a popular game from New York to Tokyo for more than a year now. Following the September mayhem in currency markets, though, activity has picked up in recent weeks.

Earlier this year, US investors were driven by a desire to earn high European-style interest rates at a time when US rates were low. The "diff swap", which enabled them to swap a US income stream for a European-style one, was one answer. Now, though, they are more interested in how to benefit from the falling differential between interest rates in the two continents. Structured notes issued by banks are one answer - particularly for US or Japanese investors who want to avoid the risks of holding European currencies. Returns to the investor are tied to the differential between US and European interest rates over the next year.

For instance, the spread between US and German six-month Libor is nearly 500 basis points at present, while the markets expect the gap to have narrowed to a little over 100 basis points by the end of 1993. Goldman Sachs, one of the US banks in London to sell structured notes, predicts that the spread a year from now will stand at 360 basis points.

It therefore recommends a note that pays out a premium if the gap has narrowed to less than, say, 250 basis points. If the markets are right, of course, and the gap narrows faster than this, anyone buying such a note could quickly see their investment being eaten into.

Yield curve bets like these could be constructed by investors from scratch, avoiding the investment banks' own profit margin, though for all but the biggest that may prove difficult or expensive.

An alternative bet which has been popular among Japanese

investors this year is the reverse floater, says Mr Nick Burge of Nomura International. Normally issued in small tranches under medium-term note programmes, these instruments pay a higher yield as interest rates fall. Reverse floaters were a popular bet on falling Japanese interest rates at the start of this year, he says, and have now taken hold in European currencies as well.

RENEWED tensions in Europe's exchange rate mechanism in the lead up to the Edinburgh summit caused some parts of the currency options market to all but seize up at the end of last week.

Gridlocks like this have become familiar in recent months, ebbing and flowing with the tide of speculation in the spot foreign exchange markets. With markets becoming seasonally less liquid anyway as the end of the year approaches, it seems unlikely that things are likely to get better soon.

"Liquidity in [options on] the smaller ERM currencies has been very thin - though it has held up quite well in the £/D-Mark," said Mr Keith Darlington of ICI's treasury department. Mr Bob Jolly, an associate director of County NatWest Investment Management, agreed: "FFr/D-Mark is not being quoted at all, or is being quoted on massive spreads."

Volatility for one week Ffr/D-Mark options was being quoted on Friday at a spread of 5-15 per cent: a reflection of the fact that few banks wanted to write options, since to do so would leave them exposed to any sharp swing in the exchange rate. For ERM currencies expected to move within narrow fluctuation bands, these volatility levels showed just how high the pressure on the franc had risen by the end of last week.

The French currency is not alone. The implied volatility levels used to price options on most European currencies have been edging higher again in recent weeks, having slipped back after the trauma of September. This is not just within the ERM: the three-month volatility of both sterling and the D-Mark against the \$ was around 15-16 per cent at the end of last week.

Richard Waters

## NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
<b>US DOLLARS</b>							
NGK Spark Plug Co.(a,b)*	200	1996	4	2.75	100	Yamaichi/ Nomura	-
Lion Corp.(a)*	100	1996	4	2.625	100	Daiwa Europe	-
Wipac Convey Corp.(a)*	50	1996	4	2.625	100	Nikko Europe	-
Honen Corp.(a)*	50	1996	4	2.625	100	Nomura Int.	-
DESCO(a)	10	1997	5	11	100.55	Goldman Sachs Int.	10.855
CCM(a,b,j,k)	1bn	1995	2.68	(i)	99.82417	Citibank	-
CCM(a,b,j,k)	78.2	1995	2.25	5.55	99.84375	JP Morgan Securities	5.720
CCM(a,b,j,k)	1bn	1996	5.08	(i)	99.97738	Salomon Brothers Int.	-
CCM(a,b,j,k)	102	1998	5.25	7.2	99.575	JP Morgan Securities	7.225
Ciba-Geigy Corp.	200	1987	5	6.5	101.415	CSFB	6.163
Norddeutsche Ldb(a)*	75	2002	10	(m)	99.875	Merrill Lynch Int.	11.528
Banco Jaramar(a)	30	1995	2.5	11.5	99.95	Lahman Brothers Int.	-
Abbey Nat.Tras.Serv.(a)	100	1993	1	(n)	100	Lahman Brothers Int.	-
Finnish Export Credit(a)*	30	1998	4	(q)	100.1	Salomon Brothers Int.	-
Swiss Re Fin.(US) Inc.(a)	100	1993	7	3.75	100	Goldman Sachs Int.	-
Sumitomo Metal Mining(a)	400	1998	5	3.75	100	Daiwa Europe	-
<b>YEN</b>							
Tokyo Land Corp.	20bn	1998	5.25	5.3	100	Yamaichi Int.(Europe)	5.294
Glory	10bn	2000	7.25	5.6	101	Yamaichi Int.(Europe)	5.425
Formula(Grand Cay.) (a,b)*	4.3bn	1998	4	(a)	100.1	Fuji Int.Finance	-
European Inv.Bank(a)	25bn	1997	4.75	4.5	99.95	IBJ Int.	4.508
<b>D-MARKS</b>							
Shinseido Co.(a,b)*	30	1996	4	(o)	100	Sekura Bank(Deutsch.)	-
<b>STERLING</b>							
BCE Inc.	125	1998	5.05	6.375	99.49	UBS P&D Securities	8.490
Truck Funding(a)	180	1997	3.75	(i)	100	UBS P&D Securities	-

## NORTHAM PLATINUM LIMITED ("Northam")

(Registration No. 77/03282/06)

(Incorporated in the Republic of South Africa)

## TERMS OF THE RIGHTS OFFER

On 4 December 1992 Northam announced its intention to raise approximately R350 million by means of a rights offer. Northam now advises that the terms of the rights offer will be as follows:

Shareholders in Northam will be granted the right to subscribe for 42 shares in Northam at a price of R14.75 per share for every 100 shares held at the close of business on 18 December 1992.

## THE JOHANNESBURG STOCK EXCHANGE

Application has been made to The Johannesburg Stock Exchange for a listing of the renounceable (nil paid) letters of allocation, commencing with effect from Monday, 21 December 1992, and for a listing of new shares from Thursday, 14 January 1993.

## THE LONDON STOCK EXCHANGE

Dealings will commence on The London Stock Exchange in the renounceable (nil paid) letters of allocation under Rule 535.4 on Monday, 21 December 1992 and in the new shares under Rule 535.4 on Thursday, 14 January 1993.

## CIRCULAR/LETTER OF ALLOCATION

A circular containing full details of the rights offer will be posted to shareholders on 24 December 1992 and will be accompanied by a renounceable (nil paid) letter of allocation setting out the entitlement of the person to whom the circular is addressed.

## Registered and Transfer Offices

75 Fox Street  
Johannesburg  
2001

P.O.Box 1187  
Johannesburg  
2000

## Brokers to the Issue

F B (In the Republic of South Africa)  
H S Fergusson Bros., Hall, Stewart & Co. Inc.  
(Registration No. 72/08905/21)  
(Member of The Johannesburg Stock Exchange and the South African Futures Exchange)

(In the United Kingdom)  
Cazenove & Co.

(A member firm of The Securities and Futures Authority and of the London Stock Exchange)

A member of the Gold Fields Group



## Dividend No. 422

NOTICE IS HEREBY GIVEN THAT a dividend of 29 cents per share upon the paid up common shares of this Bank has been declared payable for the current quarter at the Bank and its branches on and after February 24, 1993 to shareholders of record at close of business on January 25, 1993.

By order of the Board  
Jane E. Lawson  
Senior Vice-President & Secretary

US \$205,000,000  
Kidder Peabody  
Mortgage Finance Ltd.  
Guaranteed Secured Floating Rate Notes due 1997

For the period from December 14, 1992 to March 15, 1993 the Notes will carry an interest rate of 4.25% per annum with an interest amount of US \$107,500 per US \$100,000 principal amount of Notes payable on March 15, 1993.

Agent Bank:  
Bank of America NT & SA  
London

SAMSUNG ELECTRONICS CO. LTD.  
Notice to the holders of US\$100,000,000 Global Debenture Bonds

NOTICE IS HEREBY GIVEN TO THE HOLDERS OF ABOVE GLOBE THAT: pursuant to "Korean Securities Exchange Commission Regulations", the final bid price for the Rights Offering has been fixed at 22,300 Korean Won per share on 8th December, 1992.

ARAB BANKING CORPORATION (B.S.C.)  
USD 150,000,000  
FLOATING RATE NOTES DUE 2000

For the period December 10, 1992 to June 10, 1993 the new rate has been fixed at 5.25 % P.A.

Next payment date: June 10, 1993  
Coupon nr: 16  
Amount: USD 25.42 for the denomination of USD 10,000

THE PRINCIPAL PAYING AGENT  
SOCIETE GENERALE  
BOENAL  
GROUP  
15, avenue Emile Reuter  
LUXEMBOURG

## EUROPEAN FINANCE AND INVESTMENT

SWITZERLAND  
DECEMBER 17 1992.

Finanzplatz Schweiz is in the midst of momentous change. Will bring more challenges. The FT Swiss correspondent, Ian Rodger, will analyse the repercussions for the financial system in this post-referendum report. For further information call:

Nigel Bicknell/Simone Egli  
in Geneva  
Tel: 022 731 16 04  
Fax: 022 731 94 81  
E-mail: Jenny in Schindler  
Tel: 058 81 30 70  
Fax: 058 81 30 76  
Patricia Surridge in London  
Tel: 071-873 3425  
Fax: 071-873 3428

## FT SURVEYS

## Standard Chartered

Standard Chartered PLC  
(Incorporated in the United Kingdom)

US\$400,000,000 Undated Primary Capital Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that the next Interest Determination Period will run from 14th December, 1992 to 11th January, 1993. This Interest Determination Period is also a Residual Period (as defined) and the Notes will carry interest at the rate of 3 1/4 per cent. per annum.

Interest accrued to 11th January, 1993 and payable on 11th January, 1993 will amount to US\$29.65 per US\$100,000 Note and US\$296.53 per US\$100,000 Note.

Chartered WestLB Limited  
Agent Bank

New Issue

This announcement appears as a matter of record only.

December 1992



## MATSUSHITA ELECTRIC WORKS, LTD.

U.S. \$300,000,000

2 3/4 per cent. Notes 1996

with

Warrants

to subscribe for shares of common stock of Matsushita Electric Works, Ltd.

Issue Price 100 per cent.

Yamaichi International (Europe) Limited

Morgan Stanley International

Daiwa Europe Limited

Nomura International

ABN AMRO Bank N.V.

Bank of Tokyo Capital Markets Group

Baring Brothers & Co., Limited

Credit Lyonnais Securities

Robert Fleming & Co. Limited

IBJ International plc

Kleinwort Benson Limited

Merrill Lynch International Limited

J.P. Morgan Securities Ltd.

New Japan Securities Europe Limited

J. Henry Schroder Wagg & Co. Limited

Swiss Bank Corporation

Tokai Bank Europe Limited

Credit Suisse First Boston Limited

Nikko Europe Plc

Sumitomo Finance International plc

Asahi Finance (U.K.) Ltd.

Barclays de Zoete Wadd Limited

BNP Capital Markets Limited

Deutsche Bank AG London

Goldman Sachs International Limited

Kankaku (Europe) Limited

KOKUSAI Europe Limited

Samuel Montagu & Co. Limited

National Securities of Japan (Europe) Limited

Salomon Brothers International Limited

Sumitomo Trust International plc

Taiheiyu Europe Limited

UBS Phillips & Drew Securities Limited

S.G. Warburg Securities



[illegible]



925 2128

[illegible]



**FT MANAGED FUNDS SERVICE** • Current Unit Trust prices are available from FT Cityline. For further details call ( 071 ) 925 2128.

[illegible]



171-150



● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

هكذا من الأصل







## AMERICANS

[illegible]

**Figure 6**

Gen Dev Pk	100%	1.7	Good	1980	1.35	250	1980	1.35	250
Gen Dev Pk - 21	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen Dev Pk - 22	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
General Income	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
General Income - 1	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
General Income - 2	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 1	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 2	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 3	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 4	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 5	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 6	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 7	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 8	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 9	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 10	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 11	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 12	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 13	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 14	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 15	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 16	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 17	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 18	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 19	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 20	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 21	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 22	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 23	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 24	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 25	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 26	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 27	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 28	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 29	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 30	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 31	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 32	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 33	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 34	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 35	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 36	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 37	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 38	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 39	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 40	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 41	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 42	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 43	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 44	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 45	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 46	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 47	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 48	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 49	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 50	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 51	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 52	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 53	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 54	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 55	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 56	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 57	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 58	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 59	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 60	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 61	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 62	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 63	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 64	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 65	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 66	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 67	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 68	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 69	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 70	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 71	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 72	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 73	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 74	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 75	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 76	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 77	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 78	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 79	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 80	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 81	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 82	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 83	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 84	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 85	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 86	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 87	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 88	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 89	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 90	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 91	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 92	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 93	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 94	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 95	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 96	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 97	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 98	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 99	100%	1.7	2.25	1980	1.35	250	1980	1.35	250
Gen - 100	100%	1.7	2.25	1980	1.35	250	1980	1.35	250

Leveraged Opp	98	—	—	7.20	—	51.30
Liquid Cash Pctg Dis	98	2.6	— Oct May	19.6	21.9	—

[illegible]

For Questions 1-5, select the correct answer.

[illegible]



2004

[illegible]

Parsons G&S	
Parsons Indus	
Mount Martin	✓
Moghty Mining	
Proctor & Kitchen	
MS 100 Plant	✓
Parsons Indus	
Parsons Corp	✓
Placer Pacific	
ProGold	
Procon	
Gravelco	
Gravelco	
Resource Resources	
Procon	
Shimpo Engr.	
Shs Resources	
Sons Genl.	
Sons Pacific	
Sprague	
Western Mining	
Washington	✓
Yates	
Yar & Hume MS	
Zaprow MS	
McIntosh MS	
Probing MS	
Aluminum	
Aluminum	
Anglo-Canadian	
Barrick Gold Inc.	✓
Bellco	
Chloride Min.	✓
Capa Range	
Dee Martin R.	
Dee Martin R.	✓
Europe Min.	
Feltrin R.	✓
Glencor Inc.	✓
Greenhorne	
Hondo Gold Co.	
Industries	✓
Lasalle R.	✓
Leveque	✓
Maclean R.	
Norcan R.	✓
Ox. Gold	
PITZ	✓
Vaccaro	

[illegible]

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page



[illegible]

**4 pm close December 11**

[illegible]

The FT proposes to publish this survey on

March 24 1993,  
The FT is the best read publication among frequent\* international air travellers in Europe (\*20+ trips/year). It is also the best read publication among high status first/business class air travellers in Europe \*\*. For a full editorial synopsis and details of available advertisement positions, please contact:  
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Manchester M2 3LF

*Data sources: \*\* International Air  
Travel Survey (IATS) Europe 1990  
and  
FARE 1991*

**FT SURVEYS**



## Cambridge economist Wynne Godley talks to Peter Marsh

Indeed, some of the measures announced by Mr Lamont in last month's Autumn Statement to promote growth - such as the effort to boost fac-

As for trade, Prof Godley says: "A basic premise is that Britain needs a strong manufacturing base to generate the income to pay for imports. It is insanity to say the balance of payments doesn't matter."

**Lyden von der Meise**

His views have also prompted disagreements with fellow economists. Sir Douglas Hague, a former economics adviser to Mrs Thatcher, says

Aren't such thoughts, even in a fairly diluted form, a

## CROSS

**JOTTER PAD**

---

**WORD**

**MICHAEL PROWSE**  
on  
**AMERICA**

1100	22.66	23.04	24.78
1130	23.24	23.64	24.77
1200	23.47	32.10	34.20
1230	23.28	32.10	34.18
1300	23.60	32.10	34.17
1330	23.58	28.61	25.26
1400	20.08	18.98	18.98
1430	17.70	17.72	17.72

1100	25.50	28.00	30.25
1130	25.85	28.32	30.52
1200	25.90	28.32	30.54
2230	20.70	28.22	30.24
1900	20.85	25.80	25.80
1850	20.48	21.15	21.15
1400	20.48	21.15	21.15
1430	20.48	21.15	21.15

**IAN DAVIDSON**  
on  
EUROPE

On the other hand, there is a lot of associated issues that are almost as sensitive, which will force their way on to the European agenda not mainly through the Maastricht treaty, but through the combined

ute in the case of Germany, which has acquired a large number of new citizens as a result of unification, and which regularly acquires large numbers of other ethnic Germans

uniformity. Neither the Germans nor the French can deny the facts of their differences; but nor can they deny that these differences may have policy consequences for their neighbours in the Community.

The solution to last Saturday's  
with names of winners on Thurs

Letter that is circulated  
around the orient (5).  
Winter sportsmen decline to  
use them (6).  
Prize puzzle will be published  
by December 24.

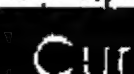
A 20x20 crossword puzzle grid. The grid is filled with black squares in a pattern that allows for 20 across and 20 down words. The numbers 1 through 30 are placed in the starting squares of the words.

1		2		3				4		5		6		7		8			
9								10											
							11												
12											13								
										14									
15							16								17				
						18													
19															20			21	
22			24							25					26				
27										28									
29										30									

ACROSS	DOWN
1 Big hitter, say, in ball game (8)	1 Wounded nightfliers propped up on a crutch (?)
4 Vessel well protected from awfully cold rain (8)	2 End with a shout and a squeak (5,4)
5 A panel on an aircraft (8)	3 The Greeks had a word for it. Two (disparaging) (8)
10 Words of praise (8)	5 Game bird? (4)
12 What a horse threw (6,2) is to check any vice? (8,2)	6 Mean error puts it just off target (4,4)
13 Word in current usage (8)	7 Weapon point caught in material (5)
15 Board of trade (4)	8 In transformation case, how does under-milk test? (7)
16 Blues associated with the early 1930s (19)	11 Pig's cant? but pig one modifies might? (7)
19 One man in a hanging basket (8)	14 Here to put on a show? (7)
20 Company way out with tax (4)	17 An insect's metamorphosis is going on continuously (9)
21 Intimidates with desert manoeuvres (6)	18 Reverse for a slice of bread (8)
23 Carefully examines any seals broken (7)	19 May be allowed to share a secret, being upright? (7)
24 Not for cat, perhaps (8)	21 Examines a note with a will (?)
25 Foreign capital obtainable at the tobaccoists' (6)	22 Oral entreaties find favour (6)
26 One ordered to be silent (8)	
4 A fine state to be in (5)	


The solution to last Saturday's prize puzzle will be published with names of winners on Thursday December 24.

These two newspapers, which are owned by the same man, have been accused of being biased in their reporting of the Vietnam war. The New York Times, which is owned by the same man, has been accused of being biased in its reporting of the Vietnam war. The New York Times, which is owned by the same man, has been accused of being biased in its reporting of the Vietnam war.



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 production of new products."